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J. J. FRAWLEY

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The Province of Alberta

IN THE MATTER OF THE PUBLIC INQUIRIES ACT

—and—

IN THE MATTER OF a Commission, dated the 12th day of October, A.D. 1938, to inquire into matters connected with Petroleum and Petroleum Products

Commissioners:

The Honourable MR. JUSTICE McGILLIVRAY
(*Chairman*)

—and—

L. R. LIPSETT, ESQ.

Session:

CALGARY, Alberta July 14th, 1939

VOLUME 100

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BOX 82

I N D E X

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WITNESS:

Alfred Herbert Miller, recalled.....11,248

Herbert Hartley Bronsdon, sworn.....11,313

E X H I B I T S

EXHIBIT 475
Volume 4 of the Submission of the British American Oil Company, Limited, presented by Mr. H. H. Bronsdon.....11,314

EXHIBIT 476
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EXHIBIT 477
Affidavit Sworn by Mr. Ellsworth, President of the British American Oil Company, sworn on the 29th day of November, 1935, and presented to the Tariff Board of Canada.....11,318

ALFRED HERBERT MILLER, having been recalled.

THE CHAIRMAN: Mr. Harvie, I do not just recall but I think I did say to Mr. Miller that we would welcome any general suggestion or recommendations from your company in respect of proposals which would make for the good of the industry and if I have not already said that I now would say it to you, that we would be glad to have submissions over and above any questions which have been put to the witness or anything of this sort which your company thinks would be of advantage for us to have before us.

MR. HARVIE: Yes, I am very glad, Mr. Chairman, that that has been brought up. That has been discussed by us, you suggested that before and it is being given consideration and I would like to have Mr. Miller give any comments on that in a general way that he wishes to do so now, but the general situation is that we are going into that in some detail and we will file it more in the form of a brief.

THE CHAIRMAN: Yes.

WITNESS: I do not think there is anything that I can add at the present time, Mr. Chairman, other than the one thing that I dwelt on yesterday, or the one item I dwelt on yesterday, and that is the question of greater consideration being given before additional licenses are issued which would increase outlets unnecessarily; in other words, I do think that if that particular regulation was enforced that it would be beneficial to the industry. I would be very pleased to

give further thought to your request and submit these if I may within the next week or ten days.

MR. FRAWLEY: Mr. Miller----

MAJOR LIPSETT: I suppose, Mr. Frawley, have we a copy of those regulations, of the licensing regulations.

MR. FRAWLEY: Oh yes, I have placed those before you and I have sent to Edmonton and asked them to be good enough to send to each one of the Provinces throughout Canada and get the similar regulations for you, throughout all the Provinces.

MAJOR LIPSETT: Do you happen to know what the licensing regulation is, was it in any way used to control distribution or the number of distributors at all, has it ever been.

MR. FRAWLEY: Was it used in any way, I did not catch that.

MAJOR LIPSETT: To control the number of people who are engaged in the distribution, are they just like tobacco licenses, a license to sell tobacco, that anyone who pays the fee can get them.

MR. FRAWLEY: Oh no. There is quite an interesting history about that legislation. It was first passed with a very rigid clause and if I had it I would show it to you, which clause was taken from the Nova Scotia Statute word for word and which in turn I understand had been taken from the American Statute, and the words were that there should be no license issued except where it was shown to be convenient and necessary or required. There was, that was a very rigid

sort of thing and would have frozen the marketing structure in Alberta pretty definitely and that Statute by the way, was placed in the hands of the Public Utilities Board and Mr. Cottle had more to do with the actual issuing of the licenses than anyone else, Mr. Cottle and Mr. Carpenter.

MAJOR LIPSETT: Did that deal with the jobber distribution or did it deal with the service stations.

MR. FRAWLEY: No, it dealt with wholesale and retail outlets but after all if the policy had been, just for example to have no jobbers, they could, just as each application for the North Star Oil Company for instance came in, it could have been refused but it was just a question of licensing wholesalers and retailers. Then that Statute in that form remained for one year I think or two years and then the administration of the Statute was taken from the Public Utilities Board and placed in the hands of the Department of Trade and Industry and that section was stricken out and one substituted for it which was in words somewhat like this, that no license shall be issued, I think it still started out with some prohibitve language, no license shall be issued except perhaps when in the judgment of the Minister it is right and proper, or something like that, much, much wider, and that is how it stands at the moment. If it might interest the Commission, there was a statement made in the Legislature at the time this resolution was passed appointing this Commission, in which the Minister of Trade and Industry referred historically to the passing of that legislation

and referred I think to the fact that it was expected that there would be some reduction in the price due entirely to that restrictive licensing policy and there having been no reduction in the tank waggon price by the major units in the industry, the situation had changed. Now I am not on very safe ground there, I do not like to quote those words and I would not like to be responsible even for the point which the Minister was trying to make but I merely mention that historically by way of perhaps explaining the point Mr. Miller was making yesterday but it is true even now, under the present language, the Minister's policy could be "No jobbers", no anything you like, and incidentally the section of the Statute goes on and says that these are issued and cancelled and amended and so on in the uncontrolled discretion of the Minister.

THE CHAIRMAN: What was Mr. Halverson's attitude towards jobbers, Mr. Nolan?

MR. NOLAN: I think, Mr. Chairman, that the discussion did not go very far along that line and I was thinking yesterday when I was sitting here that the question perhaps had not been put to him as directly as it was to Mr. Miller, "Are you in favour of jobbers or are you not". It was just mentioned by him and the jobbers were discussed but I think very generally. Perhaps I am wrong, Mr. Frawley.

MR. FRAWLEY: No, I think you are right. Certainly it was not put as bluntly to Mr. Halverson as it was to Mr. Miller.

THE CHAIRMAN: My memory is that I asked something about it.

MR. FRAWLEY: I think you did. I think there is something there.

THE CHAIRMAN: Perhaps you would be good enough, Mr. Nolan, at your leisure to check it up.

MR. NOLAN: I will check it up, sir, because if we had not his views we certainly do want them.

THE CHAIRMAN: All right.

Q MR. HARVIE: Mr. Miller, there has just been brought to my attention by Mr. Cottle that in Exhibit "468", which is Volume 3 of the brief, in the 3rd, 4th, 5th and 6th last pages there are some figures which have been transposed in typing and while the ultimate figures are all correct some of those figures are not in the right volumn and with your consent I would suggest that we might replace those four pages correctly typed and I will do that during the recess, if that is satisfactory?

THE CHAIRMAN: Very good.

WITNESS: If I may just deal again for one moment on the question of licenses; naturally I refer first to the question of new comers. There have been a lot of new comers since 1936 but I do not know whether I quite understand you, Mr. Frawley, when you spoke about some reduction in the tank waggon being expected, was that the consideration for the restricting of the licenses.

Q MR. FRAWLEY: I was trying to quote what the Minister said in the House, and I am not sure enough of that, Mr. Miller, I would not want you to place too much on what I have said by way of paraphrasing what he said unless I could find some record of it?

A The only thought I had in mind was that I do remember when you were negotiating some two or three years ago for reductions being made in the price, that it was generally understood that your recommendation was to be that if the price could be reduced, that licenses would be restricted very considerably to curtail the duplication of both wholesale and retail outlets.

Q Yes?

A Which might afford some saving on the part of the industry to offset the reduction that you requested to be made.

Q That is quite right, Mr. Miller?

A And as I said yesterday, I do not want to deal too strenuously with that but as I said yesterday, I do not know the number of licenses which have been issued since 1936, although you have a record of those but I would think that there are several hundred and instead of curtailing duplication it has been very much increased.

Q MAJOR LIPSETT: When you refer to those, Mr. Miller, do you mean those to dealers, you are not referring to jobbers?

A To all three, sir, to jobbers, to the wholesalers and to the retailers.

Q I suppose the large increase would be in the retailers, that includes the new service stations and things like that?

A I do not think so, Mr. Commissioner. I think naturally after the establishment of the wholesaler then you automatically get a large increase in the retail outlets because once a man has established a wholesale outlet it is of no use to him unless he can secure wholesale dis-

tribution, which distribution has been built and new licenses have been issued for them to operate according to the regulations.

MR. FRAWLEY: You see of course, Mr. Commissioner, Mr. Miller is quite right that licenses have been issued to the new comers, Mr. Plotkins wants his place in the sun and hollers for it; Mr. Mayland does the same, Mr. Becker does the same, Mr. Hyde does the same, and these are the people, I dare say that is quite so, these are the people who have been given licenses. They say "Is the oil industry to be confined to the two major companies, the Imperial and its jobbers and the British American and its jobbers", and they are very vocal about it. I dare say those are where the licenses have gone, to Mr. Plotkins, to Mr. Mayland, to Mr. Becker.

MAJOR LIPSETT: So really the increase in the number of outlets for instance, were not to the Imperial or the British American but to these others.

MR. FRAWLEY: It is just depending on the point of view. It is an evil or a good, whichever way you look at it, but it is giving the small Alberta independent company a place in the marketing picture and that of course makes for duplication of course, but that is the problem.

MAJOR LIPSETT: And that again I suppose is to some extent caused by the undivided dealer, that is the dealer in business cannot handle additional products.

MR. FRAWLEY: Oh, that is what they say. I have heard that many times, that an independent company will approach a man, a retailer, a dealer, and the dealer would be quite willing to put his products in but

he says "I cannot divide my business. My price goes up a cent right away", so he stays with a larger company and the argument there is that this A. B. A. arrangement, the 100% arrangement tends to keep the monopoly in the hands of the bigger companies.

THE CHAIRMAN: Before you go on, Mr. Frawley, the Volume of June 21st, Mr. Nolan.

MR. NOLAN: Yes. I was just looking at my notes on that very page.

THE CHAIRMAN: I see I have a note, not the words of the witness at all, but "duplication of wholesale licenses very wrong".

MR. NOLAN: I will look at that and I have also looked at Exhibit "316" which was Mr. Halverson's brief on jobbers, prices and sales and he discusses the danger of the jobber going into the refinery business on his own and then on page 2 of Exhibit "316" he says "There would be no purpose in our giving these jobbers a better price than necessary simply to enable them to compete with us successfully because we realize jobbing business is temporary and direct gallonage is the only kind that can be considered reasonably permanent", and then he goes on to discuss some jobbers who eventually became refiners and a certain amount of the gallonage was lost, but I know what you are looking for, sir, and I will find it I hope during the morning.

THE CHAIRMAN: That is page 2 of what?

MR. NOLAN: Page 2 of Exhibit "316", sir, which was entitled "Jobbers Prices and Sales in Alberta". You will remember, sir, it was one of these black books.

THE CHAIRMAN: Yes.

MAJOR LIPSETT: I have a note on the 21st of June with reference to this matter, the Chairman suggested to Mr. Halverson that as to any matter such as legislation or regulation he should put in a memo on any matter that the company should think wise or desirable.

MR. NOLAN: I do remember that.

THE CHAIRMAN: That was at the end of the morning session.

MR. NOLAN: The Chairman was then speaking very generally about any existing Statutes or Regulations which might be in effect or in force now or which ought to be in effect or in force and he wanted some expression of opinion and Mr. Halverson said he would do that, but I doubt, sir, if he was thinking then particularly of this point, althought it would be covered, it would be covered certainly, because those are regulations.

MAJOR LIPSETT: Yes.

THE CHAIRMAN: I certainly must have put something to him.

MR. NOLAN: On that date.

THE CHAIRMAN: Yes, because that is my note, it is a very brief one "The danger of wholesale licenses is very wrong".

MR. FRAWLEY: Yes, my note is, Halverson says"not too much danger but really too many retailers".

THE CHAIRMAN. The brief would seem to indicate that he thinks it was a temporary condition which must come to an end from what Mr. Nolan is reading to us.

MR. NOLAN: I am reading from the brief.

THE CHAIRMAN: All right.

A. H. Miller.

Q MR. FRAWLEY: Mr. Miller, I called you back this morning because I have received from Dr. Frey some suggested questions, some of which I am afraid I, perhaps, have not covered. First of all, I want to show you Exhibit "314", pages 1 and 2, which is Mr. Halverson's brief and contains a quite concise statement of the number of stations which that company operates, main stations, bulk stations, company-owned service stations, the staffs, supervisors, and salesmen. Then as to the products and the number of gallons of gasoline and all other products sold in 1938, and he would like to get a similar statement from your company. That could be done, Mr. Miller?

A Of course, we have given you this now in Volume 1 or 2. But is it your desire to have it set up in this way?

A That was all. I am sure there is as much information in all your material as is there, but the suggestion merely is that seems to appeal to him as rather a concise way of getting all the information on two pages, if you can do that?

A Just this?

Q Just as on those two pages. You have covered that very fully but could you in that fashion set it up?

A Yes.

Q And Mr. Harvie doubtless has a copy of that. Now, Mr. Miller, assuming that the commission agent owns his own truck or trucks, what assistance does the supplying, that is your company give in financing of those trucks, if any?

A It has been our policy since the inception to finance for our agent his requirements, that is his financial

requirements for the truck up to 60% of its purchasing price, and that 60% is paid back to us over a period of two years with interest, nominal interest, I think, of 4%.

Q What arrangement does your company make for handling commercial consumer accounts. Does it lend equipment. On what basis are prices established to commercial consumers. Now, I know we dealt with that yesterday but if you would care to make now a brief statement answering all of the questions?

A Commercial consumers in Western Canada are sold at the regular tank waggon price that would apply to any dealer. All equipment is purchased by the commercial consumer in the same manner as the dealer would purchase his. There might be a few exceptions here and there where possibly equipment has been sold and afterwards reduced in price or afterwards, after a certain amount had been paid it was determined to leave the equipment there without further payment. And there might be one or two instances where the equipment has been loaned. As we said yesterday, we were preparing a list of the commercial consumer accounts in Alberta, covering the equipment, as you requested, and that will be submitted.

Q Now, would you mind defining the expression "commercial consumers"?

A A commercial consumer would be an industrial account, a bakery or machinery account, who purchased gasoline to supply their own cars or trucks but not for resale.

Q Is there any limit first of all to the number of units which the commercial consumer must own and operate?

THE CHAIRMAN: What do you mean by units?

MR. FRAWLEY: Cars, trucks and automobiles.

A That is, I think, governed automatically by the fact that the commercial consumer has to buy or make an investment in a pump and quipment and therefore unless he had sufficient units, say for instance three or four units in the way of cars or trucks, it would not warrant his capital investment in that equipment to enable him to buy at tank wagon prices. As I said, it has been usual for the small commercial consumer account to try and make an arrangement with any particular retailer to secure a price delivered in to his cars or trucks at possibly 2¢ over the tank wagon price, or maybe 2½¢, but some reduction, however, from the price generally considered fair for the ordinary private consumer.

Q Is there any limit in the delivery, in the minimum delivery that you will make to one of these commercial customer accounts that has set up his own tank - or set down his own tank and set up his own pump?

A No. Commercial consumers either buy in tank car or tank wagon. In Western Canada there are very few tank wagon buyers because their volume is not of any great consequence. Where tank wagon delivery is made we make the same size of delivery that we would to any dealer.

Q What is that? I am only interested in the minimum? What is the least you will deliver to a commercial consumer account?

A I do not think, Mr.Frawley, that the minimum delivery to the commercial consumer account would be possibly less than 100 gallons on the average and I would think that there would be more and not less of 200 gallons.

Q You think it would more likely be 200 but it might be down to 100?

A I would think it would be more likely 200 on the average. The minimum though would be, I think, 100.

Q I do not want to get too far afield, but it may be of interest to the Commission, the point you raised a moment ago. A wholesale grocery, we will say, or anybody that had say three trucks and perhaps a car or two used in his business by his salesmen is faced with two alternatives, one, he can go to you and make arrangements to purchase a tank and a pump and then get deliveries in one or two hundred gallon lots and pay the posted tank wagon price, 1¢ more than the dealer pays, that is, the 100% dealer. Or he can go to a retailer, a service station or a garage and ask the garageman to try and meet either in whole or in part the deal that he would be able to get from you. That is the proposition, is it not?

A Quite right.

Q Does not that result, Mr. Miller, in a considerable amount of chaos in the retail trade insofar as the truck business is concerned?

A In what way?

Q Would there not be a desire on the part of many, many retailers to try to get that business of this particular wholesale grocery that might buy considerable gallonage from week to week, and that he would be prepared to cut his price to, as you say, 2¢ over the tank wagon rather than the ordinary 4¢ which he chages the ordinary motorist?

A Well, Mr. Frawley, in the first place he does not cut his

price because as I said yesterday the retailer in Canada and the United States is free to sell at any price he feels fit above the tank wagon price. Unless there is some regulation. I speak now, unless there is a regulation in force, provincially or otherwise, where he cannot do that.

Q There is, as a matter of fact, is there not, in this province?

A You say there is here but let me say, Mr. Frawley, again that that regulation is also one of which it is impossible for you or for us, and I speak of the Government or the oil industry, to police and I again maintain definitely that it is not effective in this province or any other province in Canada where there is a similar regulation. Therefore, as far as Western Canada is concerned, as the majority of the commercial consumer accounts are small, in other words, their volume is small, it does not warrant their bookkeeping, their initial investment and license fees and repairs and so forth to equipment that they may buy. My experience is that the majority of the small commercial consumers in Western Canada buy through a retail outlet at a certain price, and which price varies all over above the tank wagon price.

Q That is just exactly what I want your views on, because certainly it is open to this Commission to recommend the scrapping of all these regulations which Mr. Plotkins has referred to from time to time as the oil code. So you say that that regulation that requires the retailer to maintain one price to all his customers, in other words,

A. H. Miller

they want to make a discrimination, and you say there are some of those, on your part you see nothing wrong with the retailer having a price to a commercial consumer and a price to the ordinary casual motorist, or even a steady motorist consumer. There is nothing inherently wrong. You would recommend that that be permitted and encouraged indeed?

A I think any regulation that cannot be made effective and enforced is a detriment to anyone for all concerned.

Q And you think there should be no restriction at all? It is not only incapable of being policed and therefore it is futile but there should not be any attempt to regulate the retail price at all. Let the retailer sell to me at one price, and to you at another, and to a truckman at another, and have as many prices as he wants. I want to find your views upon it?

A I say definitely I think there should be free competition in the price the commodity is sold at.

Q You do not think the consumer, let us think of him at the moment, the ordinary consumer, who you said yesterday does not go around shopping, but the ordinary consumer that just goes blindly and casually into any service station as long as it has the B. A. sign on it and thinks he will get fair treatment, you see nothing wrong in regard to that at all, that the B. A. retailer has a 4¢ price if he thinks it is just a casual customer, or if it is a steady customer and he thinks he will come every day for his gasoline that he will sell it to him at 2¢ over the tank wagon, but if it is a perfect stranger or an American tourist he will charge him 4¢

A. H. Miller

over the tank wagon. I am not saying there is anything wrong with that. I am not trying to comment on it, but I want your views?

A I think a man who buys his merchandise and pays for it should be entitled to sell it at any price he wishes to and that particularly applies to the petroleum industry and our experience has proven you cannot regulate the retail price. We have had that experience ourselves when we were in the retail business. We tried to set a definite retail price and we know by experience that the price was never maintained.

Q That is fine, and that may be the answer. Whether it is good or bad it must be discarded because it cannot be enforced? Is that your view?

A I think to further illustrate that is the fact that I believe today 75%, at least I think that is conservative, of the United States and Canada, permit the retailer to sell at whatever price he feels fit above the price he pays for the article.

Q Well, Mr. Miller, maybe that is quite right. But let us not think of the retailer for the moment. He is receiving, I am sure, due consideration every day. But let us think about the consumer. Perhaps there is nothing in the world wrong with it, but let me ask you again. You do not think there is some danger of the consumer being taken advantage of if there was no question of a determined margin, be it 3¢ or 4¢, something that the Commission - let us assume that the Commission found after its survey that 4¢ margin in the city of Calgary was the minimum fair margin for the

retailer to take - now then you think the Commission in its recommendation should stop there and there should not be any attempt to see that the consumer is protected, or would you say if he is paying 4¢ he is being protected, and if he is getting it for 3¢ that is just a circumstance, but it is not of any importance. Perhaps that is your view, is it?

A Well, is not that the answer, Mr. Frawley, when you say you have these regulations, and notwithstanding the regulations the dealers are still selling at a price they feel fit to sell at? I do not think that any car consumer offers any objection to a man with a grocery store that possibly has one delivery wagon that is running around making deliveries in a certain neighborhood to securing a lower price that the car consumer is able to secure. I do not think the average car consumer has any objection to that. I think that grocery man who is running that delivery wagon should be entitled to buy at a lower price than the consumer, the car consumer can buy for.

Q That is to say, should there be classifications and should there be grocerymen with trucks or cars, should there by any standardization of price charged to that group which might be lower than the ordinary motorist?

A I think that the more classifications you have, the more involved the thing becomes, and the less possibility there is to regulate it. In other words, if it cannot be regulated today it would be even more difficult to regulate it if you had certain classifications.

Q Then we get back to where we were a minute ago. You say

A. H. Miller

there should not be any restriction at all. I just want you to tell me then do you see any possible harm to the consumer in the retailer being free to charge any number of prices, even as between motorists of the same volume?

A I cannot see any possible harm to the consumer. If it was free for the dealer to sell at any price he wished, I would think possibly there would be a benefit to the consumer instead of harm.

Q I see. All right?

Q MR. COMMISSIONER LIPSETT: If a few dealers, Mr. Miller, could distribute the gasoline and one required a margin of say 4¢ and his competitor in this free scheme that you say could sell at 3¢ on an average by giving special discounts to some customers and so on, would there be any advantage in fixing a maximum spread of 3¢ and in that way confining the retail distribution to the most efficient dealers?

A I think the motorist only receives what he pays for. In other words, there might be some retail establishments that maintain a certain standard of service and services, and by so doing are able to control a large volume of the consumer business at the full margin of profit. And then likewise there is the other side whereby there are many retail outlets that are not in a position to offer any services or facilities, such as the farmer retail outlet I mentioned. Therefore on account of and in place of giving that service, or services and facilities he thinks he should sell at maybe 1¢ less. In the long run, it all averages up. Just as I said yesterday, there are some dealers that do not look at the profit angle from the sale

A. H. Miller

of gasoline. They look on gasoline as a leader to bring customers to their place of business to buy other merchandise and services and take their profit there.

Q One man charges a 4¢ spread and gives gasoline plus some service, and the the other man takes a 3¢ spread and gives gasoline only?

A Plus a lot of service, the man who takes the full spread as a rule gives a lot of service. He possibly cleans a man's glass on the car and puts water into his radiator and inflates his tires and other incidentals, whereby another man not having those facilities he is not interested in getting the same amount of profit on his gasoline and he sells for less.

Q MR. FRAWLEY: The next question is, what is the attitude of your company towards the steel barrel situation? Do you have any suggestions concerning the solution of that problem? Well, that has been discussed. I put the question to the Witness so that I would like to have it in more or less proper order. Have you anything you wish to say in addition to what you have already said during your evidence with respect to that ?

A No, I cannot add to it..

THE CHAIRMAN: I think we are clear on what your evidence is on that.

(Go to Page 11,267)

Q What is the estimated company's per gallon of tank truck haulage, both long and short haul, assuming long haul to be more than 50 miles, do you follow that question, Mr. Miller?

A What is that again?

Q What is the estimated company's per gallon of tank truck haulage, both long and short haul, assuming long haul to be more than 50 miles, you remember Mr. Plotkins was giving us a figure of 8 cents.

MR. HARVIE: May I show Mr. Miller this Exhibit to see if that is not the answer?

A That is the answer.

Q MR. FRAWLEY: Now in connection with this question, the company's estimated per gallon of tank truck haulage -----

MAJOR LIPSETT: That is the cost per gallon is it?

MR. FRAWLEY: It is the estimated company's per gallon of tank truck haulage.

MR. HARVIE: It must be cost I imagine.

MR. FRAWLEY: Yes, he means the cost, the per gallon figure, the figure per gallon as distinguished from per mile apparently.

A We estimate our lowest truck costs are as shown on Exhibit "466" but as I said when giving evidence yesterday that these rates are for Eastern Canada and as the roads and climatic conditions in Eastern Canada are far better than they are in Western Canada the Western rates would be proportionately higher

and I would say at least 10% can be added to those.

Q I think the figure which was given to me by the 77 Oil Company, that hauls from the Cutbank refinery, I wish I had it here, it was a per gallon figure and I will try to get that and ask you what you think about it?

A The figure that is shown on Exhibit "466" is in two thousand gallon lots.

Q Now then the next question, Mr. Miller, is, elaborate on third-party leases, the number rents paid and rents received, yes, the number, yes, that is right, the number of third-party leases and rents paid and the rents received; also the same for company's leases, now has that information been supplied or would you have to furnish that separately now?

A Do you wish ours or do you wish them all?

Q No, the first would be, the statement is of your third-party leases, the number of them, the rents paid and the rents received with respect to each one?

A We have to submit that.

Q I have in mind that we asked for that and you have to submit that now?

A We will let you have that today. I might say there are very few.

Q Then the same information with respect to what he calls "company leases"?

THE CHAIRMAN: Has Mr. Harvie a note of that.

MR. HARVIE: I am making a note, Mr. Chairman.

Q MR. FRAWLEY: Then the same information with respect to company's leases, that would mean leases where there is no third party, properties which you own, have you some of those?

A All our service stations are leased, as shown in Volume 2.

Q All of them, all of your service stations you own yourselves so there is only one lease, that is from yourself to your operator?

A That is right but on the statement, Mr. Frawley, in Volume 3, as of December 31st, 1938, shows service stations that we own outright in the Province of Alberta of which all are in the city of Calgary and the city of Edmonton with the exception of three, one being at Banff, one at Taber and one at Drumheller and one at Medicine Hat.

Q Mr. Miller, do not elaborate on that any more, this is fine, what is in Exhibit "468" is all right, now what is the advantage to the company of third-party and cross-leases, by the way, cross-leases, do you know what they call cross-leases?

A Well, a cross-lease is where we lease,.....

Q From the operator?

A From the dealer and lease it back to him.

Q Have you some of those, well, if you have ----

A I do not know, Mr. Frawley, but if we have there may be only two at least.

Q It can be ----

A We will include this in this list for you.

Q Thank you very much. Now, Mr. Miller, what is the advantage to the company of third-party and cross-leases?

A Well, a third-party lease so far as the advantages are concerned providing the rent that the landlord would charge us is sufficiently low enough, it might be an advantage to us as against erecting our own premises and carrying the investment ourselves; in other words, a man may own properties on which he may build a service station that might suit our requirements, where we are not located and if he came to us and the deal was reasonably sound and there was enough potential in the area to justify its existence, we would lease that station and treat it in the same manner as if it was a station we had built ourselves and re-lease that to a third party who would be our lessee; a cross-lease, I do not think that cross-leases have any advantage except where we might be forced to adopt such a procedure; a cross-lease is really another way of a man receiving a lower price than the regular tank wagon and that is all there is to it.

Q Yes, now then what is the advantage to the dealer of this tie-up by way of leases?

A Cross-leases?

Q Well first of all the other kind, a third-party lease, any advantage to him?

A Well the dealer, you mean the lessee who would be renting the premises?

Q Yes, the lessee operating the station?

A There would be no greater advantage and possibly not as much to him personally than if he were possibly leasing a station that we owned ourselves except, as I said at the commencement, that if the rent that we paid the

landlord was very low then we would be satisfied to take a lower rent from him and that might be the only advantage which could be gained.

Q Perhaps what Dr. Frey would like me to explore with you is why own any property at all, why not have a relationship between the company supplying the oil and the man selling it absolutely at arms length, you simply go wherever you can and sell your gasoline, sell your products, I rather think that Dr. Frey would like me to explore it down to that?

A That is really the policy which is being adopted particularly in Western Canada and Alberta today because as I said, the total number of stations that we have, we own in this Province are 30 and we have not built any service stations in the last year or two years possibly in the Province; the policy is, our policy is rather to sell the dealer his requirements at tank wagon prices and not have the investment ourselves.

Q Then let me put it to you this way, and I think this will explain it, I am a company seeking to get a footing and establish some gallonage, so far as your company is concerned with respect to properties which you own and lease, I would only run up against that obstacle in about 30 cases with perhaps an additional two or three cross-leases?

A That is all, Mr. Frawley.

Q Then so much for that. With respect to the other places where I would find a dealer selling B. A. gasoline I would only have to meet, I would only be obstructed by

the 100% dealer?

A You are not obstructed by that.

Q Because he can go away from you and come to me and I can give him a 100% agreement as well?

A Quite right, he can go to any company by cancelling his agreement.

Q That is interesting and perhaps we should get that very clear, there are no restrictions at all, the Imperial Oil Company, you say can go into a B. A. dealer tomorrow and if he saw fit, if he wanted to, if his relations with you were as they should be I presume he would continue with you but if he chose to, he could easily turn over to the Imperial dealer over night?

A Well they do.

Q That is the answer, the answer is "they do"?

A Yes.

Q How about equipment and that sort of thing, there might be some difficulty about that, he might be purchasing some equipment from you and the new man would take over the obligation?

A He would take over the obligation. In some cases the opposing company may take that over; in other words, the company that, the new supplier, might deem it advisable and suggest that we be paid off for the balance owing on the equipment and they would re-write that over a period for the dealer.

Q And the other things would be a credit and that sort of thing, I would have to be prepared to give him as a good a proposition from the credit standpoint as he was getting

from your company and so on, those things I mean all follow?

A Credit to dealers is mainly getting down to a one-delivery basis whereby we might deliver 200 or 300 or 400 or 500 gallons and so much lubricating oil and he pays cash for all the subsequent deliveries; that is what it has pretty well worked into now.

Q To what extent do companies finance dealers who do not rent company-owned stations, that follows on from the last question?

A Finance dealers?

Q Finance dealers who do not rent company-owned stations, the ordinary country garage man or city man?

A We do very little financing. You mean to help the dealer establish himself?

Q Well, would you renovate his premises and make his premises more presentable if he became a B. A. dealer or anything of that sort?

A You mean at our cost?

Q At your own cost.

A No, sir.

Q Then would you finance his doing it?

A We have done it in cases, yes.

Q I wondered ----

A He might want us to assist in modernizing, in which case we might make some arrangement, we might let him have $500.00 and arrange for it to be paid back over a certain period.

Q Yes, now Mr. Miller, would it be difficult, if that is not included in your brief or in Mr. Bronsdon's, could there

be some brief statement made as to what extent there has been some financing done in say the last couple of years or as long as you like, without putting you to too much trouble and what the outstanding situation is?

A 1938 to date would do?

Q I suppose that would do.

A Yes, we can.

Q Now does the company have a plan for annuities, insurance or sick benefit, for employees?

Q THE CHAIRMAN: Can you get that?

A Yes, we can get it. As I say, we do not do it at our own cost but if you would like it where we have advanced it to the dealer and he is paying the money back to us ---

Q MR. FRAWLEY: Yes. Now would you just say what you have to say, unless you have already said it, on the question of annuities, insurance or sick benefit for employees?

A We have sick benefits and group insurance.

Q And does that appear in your material, do you know?

A Yes.

Q All right, now Mr. Miller, you have among your employees a service station supervisor or perhaps more than one?

A We have what we call a combined service station supervisor and salesman.

Q How many of those, one or more than one?

A In Alberta?

Q In Alberta.

A We have one in the city of Calgary and one in the city of Edmonton.

A. H. Miller

Q And that is all?

A He is our salesman in that city and he supervises and assists the lessees at the service stations too.

Q And of course you have not any service stations outside of Calgary and Edmonton, so those men are confined to those two cities?

A They are really city salesmen.

Q Now to what extent does he assist, now I will put the whole question to you, to what extent does the service station supervisor assist and to what extent does he interfere with the independent operation by the service station dealer?

A Speaking for our own man, that is the man we have in the city of Calgary and the man we have in the city of Edmonton, as I said, he is really the city salesmen and we treat our lessees in the same manner as we do the dealer and therefore, there is no interference. He is there to help all dealers, whether they be lessees or dealers with their own places of business.

Q In other words, perhaps a good instance would be the question of the man, one perhaps, does the service station supervisor leave the price at which the lessee charges entirely to the lessee?

A Definitely. Everywhere in Canada.

Q And he would not suggest to him that he should or should not give a trucking man or the two or three truck customers, a better price than the ordinary motorist?

A No, sir. We will not under any circumstances anywhere in Canada interfere with the retail price that our

A. H. Miller

lessee or dealer sells for.

Q Just following that up, and here is a question I intended to ask you the other day, do you think it would be wise for you to operate, to resume operation of one service station in Calgary and one in Edmonton and establish your own retail margin?

A Well if we did, I do not think we would do very much business.

Q You do not think you would do very much business?

A No, sir.

Q Why?

A If we established a retail market that was higher than the competitive prices set by the individual independent dealer ---

Q No, but what I meant was this, Mr. Miller, you would open a retail service station, survey the situation with all the ability and facilities that your organization has and say that the retail margin should be 3 cents or 4 cents in the city of Calgary, whatever you hit on, I do not care, even if your best judgment told you it had to be six cents, you perhaps would not get much business but let us assume you would come very close to what they are now operating at and you established that and maintained it and all the world knew that that was your price, now do you not think it would have a regulative effect, and that is all I had in mind?

A We tried it, Mr. Frawley, for many years and we found that it had no regulatory effect on the dealers in any way shape or form; as a matter of fact, where we sat

with posted prices our business dwindled away until there was not any.

Q You do not expect then to go back into the retail business?

A I will say, Mr. Frawley, this that if we posted a price on every service station which we had in Calgary and Edmonton that there would be no possible chance of having any one else follow that price.

Q You could not do it for the present spread then?

A You mean regulate the retail prices?

Q No, perhaps I did not understand you, if you did open a station, the spread that your judgment would say had to be set would be, I take it, higher than the existing spread, is that what you mean?

A No, I mean this, Mr. Frawley, regardless of what price we posted we would only find a very small percentage, if any, of the other fellows following.

Q The next question, Mr. Miller, is, what would be your idea in the matter of absorbing all rents and taxes of the service station operator, that is to say, the company, making the company nothing but a landlord, now it seems to me we talked about that considerably yesterday and perhaps there is nothing more you want to say about that. It seems to be, if I may put it that way, a difference in the point of view, my point of view and perhaps it is the worst one, is that you should be a landlord, and when you are not, you are bonusing the service station and you simply say "it is a legitimate

expense on my part because I have to spend some money to sell my gasoline there" and does not that sum it up in a word, or does it?

A Well, as I said yesterday, we naturally, try investments we make, and it was the policy adopted several years ago, we are supposed to get back our overhead without any cost to us but taxes have increased and other things in proportion and we do not feel justified, at least even if we did we could not expect to get a rent greater than what permitted the lessee to make a living and pay a living wage.

(Go to Page 11,279)

Q You see, according to one way of looking at it, they are a losing proposition for you to set up. If you went to an accountant and asked him to set you up a balance sheet and a profit and loss statement, they are losing propositions, surely?

A I would not say they are losing propositions, Mr. Frawley, but as I said yesterday, our cost per gallon of doing business through our service stations in Alberta is less than the cost per gallon of doing business through our bulk stations.

Q There is no use of developing that, as I see, unnecessarily at the moment. Now, what would be the attitude of your company towards fixing the dealer margin. If you think there should be a dealer margin fixed what would be the margin. Now, that has been discussed.

A You mean the margin between the tank waggon and the retail?

Q What he calls the dealer margin, between the tank waggon and the retail?

A I would say it is absolutely impossible, because as I said formerly it cannot be regulated and it cannot be enforced. And that has been the experience throughout the United States and Canada.

Q Now, let me put this to you, Mr. Miller, I want to show you page 878 in Mr. Meltabarger's submission, which deals with dealer margins. It is Table No. 112. Now, the comment there is that a comparison is made between dealer margins in the United States and Alberta and other parts of Canada and the question is should it be inferred from this Table that insofar as you are concerned, if you have given it any thought at all, should it be inferred from

this Table that Alberta margins will advance or is it to be inferred that Alberta distribution is less wasteful and consequently has a lower margin than some other places cited, or is the inference that duplication is less pronounced in Alberta. Apparently the purpose of the Table seems to be to show hat the dealer margin in this Province is not as high, as large, as they are in certain parts of the United States and Canada. If that is the right starting point, what is your comment on these suggestions. That is page 878?

A Our experience with reference to retail margins------

MR. FRAWLEY: I might as well put it in the record. It shows Calgary 4 cents; Regina, 4 cents; Vancouver, 5 cents; Winnipeg, 4 cents; Montreal, 3½ cents; New York, 4.9 cents; Chicago, 5.3 cents; Houston, 5.4 cents; St. Louis, 4.8 cents; Atlanta, 4.8 cents; Los Angeles, 4.8 cents and Butte, Montana, 5.4 cents. Then the foot-note says "Because of the great number of markets in which gasoline is marketed in the Dominion of Canada and the United States, the above markets were selected at random for the purpose of comparison in view of the impossibility of taking all markets. Neither Texas (Delaware) nor Texas Canada markets at retail in any of the above locations. They do not fix service station motor fuel prices. Consequently, the margins set forth are assumed margins, that is, margins developed from observation rather than from selling experience." What do you say about that?

A I would say they are quite correct in that. Our experience is that where there is large potential in a concentrated area the dealer is generally able to sell at a lower price

because of the volume he is able to secure. We find where retail outlets are established by the dealers on main arterial highways away from the main centres by giving service mainly to the tourist that man has to have a greater margin and does secure a wider margin than the dealer I mentioned formerly.

Q What would you say then, that the duplication was less pronounced in Alberta than in some of these points where they have bigger margins?

A Duplication of outlets?

Q Duplication of outlets, yes. You see, some person might say----

MR. HARVIE: I think if you will let him read the question and analyze it, Mr. Frawley, it will assist.

MR. FRAWLEY: Some people may say "Why should New York City have a dealer margin of 4.9 cents as against Calgary 4 cents. And Chicago 5.3 cents as against Calgary 4 cents. That is a rather remarkable situation.

A I imagine in the case of New York or some of the other larger centres, such as Chicago, that is really governed by the economic factors. For instance, properties, taxes and cost of operation, I would imagine in those centres, are far greater than they would be anywhere in the Province of Alberta.

Q But there is a tremendous volume through those service stations?

A A tremendous volume, and there is a tremendous number of outlets to take care of that volume.

Q That is just the point. Assuming now that the figures are

correct; assume there is a margin in Chicago of 5.3 and in New York City of 4.9 as against Calgary's 4 cents. Assume that to be so. What is your best opinion as to what is causing it and then the alternative suggestions, first of all should it be inferred that the Alberta margins will advance, that they are too low or is the Alberta distribution less wasteful and consequently has a lower margin than these other places, or thirdly, is the duplication less pronounced in Alberta. What are your views on those alternatives?

A Take Canada as a whole, I would say that the retail spread of the dealer should be between 3½ cents and 5 cents per gallon. I say 5 cents should be the maximum.

Q How about Alberta?

A That applies in Alberta too.

Q You would not care to segregate Alberta, what do you think about-----

A Personally, I think that the margin in Alberta is as low as it should be.

Q Yes, but is it high enough. Is it all right, so far as you are concerned, so far as the upper direction is concerned?

MR. HARVIE: Which margin, the 4 cents or the 3½ to 5 cents?

MR. FRAWLEY: The 4 cents in Alberta. I do not know, I must confess that when Mr. Meltabarger was putting that in I did not see the significance of it. I did not realize there was a 5.3 margin in the City of Chicago.

A Of course, you have to keep in mind, Mr. Frawley, that a

great number, no doubt, of the outlets in New York and Chicago are purely outlets that are selling gasoline and oil, whereas within the Province of Alberta the majority of the gasoline sold to the consumer is sold by retail outlets that are either in the form of a garage, a restaurant or, in other words, sell additional lines and have additional facilities for making repairs, etc., and they derive a profit there and thereby they decide that they can get by on a 4 cent spread as far as gasoline is concerned.

Q Not 4 cents. 4 cents is the top. But there is this 2 cents to the truckman and 2½ cents to the steady customer and all these things you have talked about and that I have heard about, and I know something about. And then in Edmonton it is 4½ cents, as you know?

A I do not know what it is in Edmonton because I do not bother keeping track of the retail prices anywhere in Canada, because we do not try to control the retail price. I think a margin of 3½ cents to 5 cents in Canada is all right, depending on the area.

Q Yes. I wish Mr. Macleod were here but really in the City of Calgary the margin for the undivided dealer is 4½ cents, is it not?

A You have 4 cents there.

Q That is really not right.

A I do not think you can say it is 4½ cents because, as I said before, there is no such thing as a retail price of 1 cent.

Q Well, I do not know, but I think that the Commissioners and myself can tell you - we will go over all that again - but surely we know that the retail price of standard

gasoline would be in your service station across the street, which is the nearest one, or the Imperial across here, is 27 cents including tax?

A It might be.

Q Well, however, we will have some of these men?

A Even if it is supposed to be I still say it varies.

Q We will have to investigate that and have some of them up here. But all of these remarks should be put to you on the basis that the undivided dealer margin in Calgary is 4½ cents and not 4.

MR. HARVIE: He says right in there they are all assumed.

MR. FRAWLEY: Yes, that is in there.

Q MR. COMMISSIONER LIPSETT: Is that Chicago spread of 5¼ cents, is that wine gallons or Imperial?

A That is wine gallons, Sir, in the States.

MR. HARVIE: This has been adjusted to Imperial.

A Oh, I beg pardon.

MR. HARVIE: Undivided dealer margin per Imperial gallon on house brand gasoline.

Q As Mr. Harvie just said, these are assumed prices and the only reason they are assumed is because there is no such thing as a posted retail price.

Q MR. FRAWLEY: Here is the "National Petroleum News". It is a shame to be taking so much time about this but I suppose we have to. It is the 28th of June, 1939, Exhibit "464". The Standard Oil of Indiana shows---- well, I had better not delay about that.

THE CHAIRMAN: The answer is quite clear. The witness says there is no such thing in existence or capable

of being put in existence as one uniform price for a retail price.

MR. FRAWLEY: That is as to that.

THE CHAIRMAN: Then he says if we are looking for the ideal, which we might never attain to, that the maximum spread should be 4 cents in Alberta, as I understand it

MR. HARVIE: 3½ to 5.

A That was for Canada.

Q THE CHAIRMAN: What about Alberta?

A 4 cents, Sir.

Q MR. FRAWLEY: We will have to go into it if we have to bring up some witnesses. But I can quite safely make the statement to the Commission that there is a dealer margin in the City of Calgary to-day of 4½ cents. There is no question about that.

MR. HARVIE: There is a question.

THE CHAIRMAN: The witness questions it.

MR. FRAWLEY: Then the next moment he says "I do not know what the Calgary service station price is."

THE CHAIRMAN: Mr. Miller's point is that John Smith may go in there or you or I and get a fairly uniform price from these service stations, but that special rates are given to people who seek them out and whose business seems to justify it all on the principle that if the dealer does not deal with them on that basis they will go somewhere else. So he takes what he can?

A That is done everywhere in Canada, Sir. I do not think there is an exception.

Q MR. FRAWLEY: How much does it cost per gallon, on the gallonage through service stations, to maintain credit card service. Have you got that information

available or can you put it in later if you have not got it now?

A That would depend on the volume of business a company can do and the facilities naturally in line with that volume. Our experience in the credit card business is young. In other words, we have not done it very long. Therefore, we cannot give you a figure as to what our cost is on that. It is just done in our general accounting. If you call Mr. Bronsdon he might give you a figure on the gallonage basis of the cost of credit card service.

Q We might get something from Mr. Bronsdon. All right. Are commission rates to bulk plant operators the same?

A Yes.

Q All the same?

A Yes. Our rates of commission are printed on our agency agreement form as submitted in Volume 1.

Q The Texas Company, you see, told us that they had various rates. But you have not got that system. You have the same rates?

A I think their operation is different to ours, Mr. Frawley. The commission rates are on the yellow agreement.

Q Does the company feel that distribution of gasoline through service stations is sufficiently adequate to justify no further licenses by the Province?

A Company-owned service stations?

Q No, any. Does the company feel that the distribution of gasoline through service stations is sufficiently adequate to justify no further licences by the Province?

A I would say in the Province of Alberta they are.

Q MR. HARVIE: Would that include new points?

A As I said yesterday-----

A. H. Miller.

MR. FRAWLEY: You must think about your new system.

THE CHAIRMAN: Yes.

A As I said yesterday, unless it can be shown it is required by necessity or convenience. Mr. Frawley is referring to service stations, are you not?

Q MR FRAWLEY: Just service stations. I suppose we could include in Dr. Frey's question any retail outlet. Does the company feel that the distribution of gasoline through service stations - and let us say through service stations or other retail outlets is sufficiently adequate to justify no further licences by the Province?

A I think that Dr. Frey is referring strictly to retail outlets whether they are service stations, garages, hot-dog stands or restaurants or anything else.

Q That is right. They are retail outlets. What would you say?

A I would say they are.

Q Just there, we will be fair to you. If we edited that by saying through retail outlets even though they be combination retail and wholesale outlets what would you say?

A As I said, Mr. Frawley, in my evidence, so far as distribution, wholesale distribution that is to the farmer in Alberta, that there is not sufficient. We should have twice or three times the amount of distribution that you have at the present time. In other words, on your map you show 1095 wholesale outlets in the Province of Alberta. I say that you would be better to have, of the type we are now installing, possibly 3,000. Having in mind the majority of those are being erected where there are now retail facilities.

Q That is, you can keep to your answer by simply erecting

your combination units where there is already a retail outlet?

A Quite right.

Q MR. COMMISSIONER LIPSETT: I think, Mr. Miller, you did not get an opportunity of answering or giving your views as to a point Mr. Frawley mentioned to me in reply to a question about these licences. It comes up under this particular subject now. May not the position be that the Government's hand is being forced to give additional licences by this policy of the larger companies having an undivided dealer who cannot handle the products of, as Mr. Frawley pointed out, some of the smaller or newer refineries. If you insist on the undivided dealer, is not the Government almost compelled to grant licences to any new refinery wanting an outlet for the product?

A I do not know, Mr. Commissioner, whether that makes a great deal of difference. We find that the majority of new customers, and that applies particularly in the Province of Alberta during the last three or four years, are all selling their commodity at a lower price than we are so that the dealer is not handicapped by staying with the one company to secure the extra 1 cent. In other words, where our dealers have bought or might be buying from us we will say at 15½ cents, they had lots of offers by other companies at lower than that price; So if he went to that company he would make more money than he would make by buying from us.

Q That is assuming, of course, he sold the same volume. But let me put this case to you, Mr. Miller. Take a town where you have two undivided dealers, say one Imperial and

one British American and there is obviously a good will for the products of both companies, and the dealer has a large market for each of those two products. There comes then another refinery such as Mr. Frawley has indicated and he wants to get some outlet in that town. Obviously, it would not pay either of the existing dealers to give up the 1 cent on their large volume in order to handle his new product. Has the new refinery any alternative but to go and try and get a licence from the Government for a third outlet and set up a third distributing point in that village. Would it not be better for both of the larger companies and for the consuming public that one of the two existing dealers should be allowed, without the loss of his discount, to handle the small quantity of this new product that might be required in the district?

A Well, as I say, if a man goes into the refining business there are two things he has got to do before, or he should do before he starts to build a refinery. One is to be sure he has a source of supply of raw material and the other is to be equally sure that he has distribution for that material when it is refined. As far as our policy is concerned, if we are not in a town and we find two undivided dealers that you mention, and we would like to go into that town, we are not going in there to make an investment unless there was big enough a potential offered. We will stay out of that town until some other dealer might decide to become a retailer of gasoline or until such time as one of those divided dealers felt that he would like to change from the present supplier to us.

Q MR. HARVIE: One of those undivided dealers?

A Yes, one of those undivided dealers.

Q MR. COMMISSIONER LIPSETT: Just following that up. Supposing a third dealer in that town decides he would like to go into that business because he thinks there is a demand for B. A. oil, or he can build up a business for it, hasn't he to go to the Government and get a licence and would it not be proper for the Government to give him that licence, the other two dealers being tied up?

A He has to get a retail licence, but it would look to me, as I said starting out, that the main restriction should be first of all as to wholesale licences.

Q That is another angle that I was rather coming to, but just at the moment on the retail end that we have been discussing. Would your opinion go so far as to say that the Government should refuse this third retail dealer a licence and keep your product out of that village just because the other two existing dealers are tied up with these undivided contracts?

A No, Sir, but I think that is regulated in this manner. As I said a few days ago, that if the equipment was loaned by the oil industry, that is the retail equipment, you would have a tremendous number of new outlets which were unwarranted. In other words, if a man running a refreshment booth or something like that on a highway, and the pumps were loaned by the industry, the first thing he would want was a couple of pumps although he would not have a big business when he got those pumps in. Under the existing policy of the industry whereby the equipment is to be bought by the dealer it more or less regulates the number

of new outlets that are installed, not only in that particular town you speak of where there are two undivided dealers and the third dealer thought he would like to go into business where it could only be possible if he could get his equipment loaned. It comes to the fact of having to pay for that equipment and he sizes up the situation and wonders if there is sufficient potential to warrant that investment. Therefore, that pretty well restricts and controls, or it has helped to restrict and control, unnecessary retail licences. But if we start, or if the licence regulations were enforced on the wholesale end of it as far as your wholesale licences are concerned I think that you would cut down considerably the unnecessary locations.

(Page 11, 292 follows.)

Q MAJOR LIPSETT: I would like you to think of the wholesalers for a minute, but just at the moment I was rather putting to you the net results in the circumstances which we have given of these 1,000 of undivided dealers, and that you wish to put your products in, assuming that all the arrangements were made for the capital outlay of the equipment and everything like that, do you think that the Government would be right in saying "Well we are not going to give a license to that particular village or that particular dealer, your dealer", and in that way you would be kept completely out of that town?

A I think you would be within your rights, Mr. Commissioner.

Q THE CHAIRMAN: What do you mean by that?

A He could leave us, if he wishes to, and go over to the other man.

Q MAJOR LIPSETT: No, that is not the point, two men are established there, the Imperial and the Texaco, they do not either want to leave but you want to go into that village and you have a man willing to go in there, you have made all the arrangements for your capital and your equipment and you go to the Government and ask for a license for that third man and does your view go so far as to say that the Government would not be justified in giving an extra license for the B. A. to go into that town, assuming sufficient potential and everything satisfactory?

A The company does not make applications for the license.

Q MAJOR LIPSETT: Your dealer?

MR. FRAWLEY: You go along with him or send him?

Q MAJOR LIPSETT: Your prospective dealer?

A I do not think I can add any more to what I have said, Mr. Commissioner, than I have. I think that the licenses should be governed by necessity and convenience so far as retail service is concerned; in other words, if that dealer can justify the existence of another retail outlet then I think he should get the license but if there are sufficient retail outlets in the place at the present time then he should not be granted a license.

Q Well is that not rather a little different point, Mr. Miller, there may be sufficient gasoline in the district and I have no doubt that there is with the two dealers there but there are a certain number of the public that want the B. A.'s products and there is no dealer who handles it there, but you have made arrangements for a dealer and everything else has been arranged, do you think that because there are two dealers there already, that the Government should refuse a license to the dealer that wants to handle B. A. products?

A I think they should if there is enough there.

Q Well then does not that involve you in this, if the Government were to say that "We do not think there is any necessity for the B. A. products', whatever the consumer may wish", if there is enough Texaco and enough Imperial in the town then at the moment, would that not be a very arbitrary, a very strong position for any Government to take?

A Well as I said, Mr. Commissioner, if it was governed by necessity and convenience I think you will then be able to regulate the licenses to the satisfaction of all concerned.

Q Well now just coming, leave that, Mr. Miller, and go to the wholesaler then, I take it when you have a wholesaler or a jobber that you get to handle your products, then you are not prepared to give him your best terms if he is going to take on the products of Mr. Mayland's company as a wholesaler or jobber; unless you agree to him taking on these other products, is not Mr. Mayland in exactly the same position, that he will get a jobber or a wholesaler to handle his products, if he is going to get them into proper retail hands, unless there is free permission to all dealers and to all wholesalers and to all jobbers to handle all these products on equal terms, is there any alternative but for the Government to give the necessary license, the wholesale and jobber licenses?

A As I said if there is going to be any restrictions I think the restrictions should be on new comers; in other words new people entering into the Province.

Q Does that mean a new refinery?

A New refinery or, that is providing they are new comers to the Province, I mean this, Mr. Commissioner, that we will say that another company, we will say possibly from the United States, decided to invade the Canadian territory and they have all the capital at their disposal to do it, there is where I think the first restriction should be made, if any restriction is made at all.

Q THE CHAIRMAN: You say what you have been speaking about in a single town is just an extension of that principle, there are two companies there already, they have got there first, they are adequate to serve the needs of that whole community, they should not be cut down and the community loaded up with service stations that

will only provide another outlet to sell another product?

A Not unless it was necessary and convenient.

Q That is a product that your people or anyone else there is not selling?

A That is right, sir.

Q The principle of the beer parlour license?

A Yes.

Q MR. FRAWLEY: Then do I understand you to draw a distinction between the United States and native sons' companies?

A Not necessarily, Mr. Frawley, but there has been so much said about the duplication of outlets both retail and wholesale----

Q THE CHAIRMAN: You have been harassed on the one side because there seems to be too many and on the other side because you suggest that the bar should be put down and let everybody in?

MR. FRAWLEY: You have to be consistent though, Mr. Miller.

MR. HARVIE: It is the Government though which has to be consistent.

MR. FRAWLEY: We have at the moment Mr. Miller's views in which I am very interested and you did say that new comers, new comers, you hinted that, and I suppose there is some point in that, now is the Lion Oils and the Gas and Oil Products and the Becker Oil Company included in that,or is it only the Standard Oil Company of California which we have heard a lot lately, being a new comer?

A I suppose the Standard Oil Company of California would be definitely a new comer.

Q And they are definitely in here?

A Yes, they sell about 100,000 gallons a year.

Q And the Shell Oil Company is here too, up in Jasper but those companies are the ones you meant, the Shell and the Standard Oil Company of California; then is there to be a difference of policy for the native companies, that is the point you know, and I would like to have your views about it?

A I would like to say this that, speaking from my own personal view in the matter, that I do not think there should be any regulations of any kind.

Q Oh?

A I think we should have open, free competition.

Q The survival of the fittest?

A And if you have that any of the conditions, or bad conditions which might exist, will eventually be taken care of automatically.

Q Now I do not suppose Major Lipsett wants you to get away from his question entirely, you said a moment ago in that instance of the British American dealer wanting to start in a town, get in a town, that he should have to be just kept out. Now is your best and final opinion that there should be no regulation and no restriction, just a license for all comers?

A Well I think industry is better off without any regulations unless the regulations which are made are fully enforced in their entirety.

Q THE CHAIRMAN: I think the witness is not inconsistent. He said "wipe out regulations because in the main they cannot be enforced", but he is not departing from the position, that licenses should be restricted, as I

understand it, licenses?

A I think licenses should be restricted if regulations are there to restrict them.

Q MAJOR LIPSETT: You would have a licensing system without any regulation about it and you would just say "You can enter this business on payment of such a fee if it is thought wise to give you a license", and if you didn't have a license to operate you couldn't operate.

MR. FRAWLEY: I do not think the Chairman was going that far but I would like to know, is that what Mr. Miller calls regulation, what do you say about that, Mr. Miller?

A We have had experience with regulations in the Maritimes.

Q THE CHAIRMAN: You are speaking of regulations in a uniform retail price?

A There is not one regulation down there that is not being violated every day in the week and in many hundreds of instances. As a matter of fact they have regulations governing licenses down there and which have not either been enforced, resulting today in a traffic, a trafficing of licenses; in other words, they are being peddled, you might say, to the best bidders.

Q THE CHAIRMAN: Just like the old hotel licensihg system in the days gone by?

A Yes.

MR. FRAWLEY: They transfer milk quotas under the milk situation but let me understand this, as I am interested in it and perhaps the Chairman is, when you say "regulations", do you mean a licensing system plus some collateral regulation such as rules for the carrying on of the business.

A Well I said industry would be better off without any regulations unless they can be properly enforced.

Q And he also meant that that industry would be better off without any licensing at all, do you want to go that far, I want to be clear as to what you mean, Mr. Miller?

THE CHAIRMAN: In other words, putting it this way, I understand you to say that it would be the part of wisdom to prohibit wholesale licenses, licenses to carry on the business of a wholesale outlet unless under circumstances which seemed needed by the public?

A Yes.

Q Now do you maintain that position that that can be accomplished?

A I do, Mr. Chairman.

Q Then you say that the person being licensed, these persons who are licensed, should be allowed to carry on their business without restrictions by Governmental regulation, in short they should be allowed to carry on a competitive war in any way they like, which is within the law, and there should be no regulations about them once they are licensed, they should be free to do business in any way they like and at whatever prices they liked?

A That is right, Mr. Chairman.

THE CHAIRMAN: That proposes a clean-cut distinction between the issue of licenses or the use of a licensing system to prevent an undue number of outlets.

MR. FRAWLEY: Yes.

THE CHAIRMAN: And controlling them once they are licensed.

Q MR. FRAWLEY: Then, Mr. Miller, I take it, you hold to the necessity of there being a licensing system?

Q THE CHAIRMAN: To prevent there being too many?

A I do. I think that licensing system should be enforced but I not think there should be any other regulations.

Q That is clear. The Chairman has made that clear with you, so then you hold then, I take you feel there should be a licensing system and you think that should be administered carefully and cautiously, that licensing system?

A More so than they have today.

THE CHAIRMAN: The necessity for the outlet before the license is granted.

WITNESS: Yes, that is it.

Q MR. FRAWLEY: You surely do not think the Government can draw any distinction, do you, or do you, between what you call a foreign company and what I call a native Alberta company?

A I think that you have got the regulation there, as Mr. Chairman said, and it should be on a merit basis, is that not what you suggested, Mr. Chairman?

THE CHAIRMAN: Yes. As I understand the witness on that point you now are asking him about, and correct me if I am wrong, he is not drawing any distinction between corporations which are foreigin or Canadian, but he says you have an area served by certain outlets, wholesale outlets and before you let in any more----

MR. FRAWLEY: Of any kind.

THE CHAIRMAN: Be they Canadian or United States or from Sweden, it does not matter, but you should not allow more in than is needed by the Community.

Q MR. FRAWLEY: That is what you say?

A Exactly. If that regulation is enforced I think it gives the industry a chance to maintain the services necessary to the community and to market possibly more economically than they are today.

Q MAJOR LIPSETT: Well now just following that, where would that bring us, Mr. Miller, what was passing through my mind, and I want to get your help on it, you have arrived at the stage where you now have only wholesalers and retail outlets we will asume and assuming no more should be granted, does not that involve that those existing channels should be allowed to handle the existing business also, in other words, should not the existing wholesale and retail outlets be allowed to handle the products of these other refineries that Mr. Frawley has mentioned in addition to the products of the two or three major companies?

A Speaking for, speaking personally for our company I would have no objection to the authorized buyer's agreement being discontinued and the dealer being sold at tank waggon market and we will sell our merchandise on its merits, we will take our chances with anybody else as to being able to create that consumer demand for our products to take care of the sales we wish to make.

Q That would eliminate the undivided dealer?

A Yes.

Q THE CHAIRMAN: Of course assuming that the statutory clause or condition in all the contracts was

eliminated and that your competitors are all on the same basis, I suppose?

A That is right.

Q That they cannot prevent anyone by contract from selling anyone else's goods, I suppose you have some such thought as that in mind?

MAJOR LIPSETT: I did not have any views on it, Mr. Miller, but I was very anxious to get yours because the difficulty that we might all have to face or should face may be one connected with that?

A I think that would be quite satisfactory, Mr. Commissioner, and particularly if the licensing regulation is enforced or if good judgment is used in the future issuing of licenses.

Q MR. FRAWLEY: Of course you realise what it means, so that there will be no doubt about it, it means if you applied that rule of convenience and public necessity, I do not suppose there is a place in the Province of Alberta where another one single more wholesale license would be required?

A You might be right, Mr. Frawley.

Q There is not a place where public convenience and necessity would require the granting of any further wholesale licenses or retail for that matter?

A Except that I do think that in view of what I have stated here, that there is a greater service to the farmer community which can be given than you have today with the existing-----

Q MR. HARVIE: You mean with your new system?

A Yes. You cannot get away from that, Mr. Frawley, I mean it is perfectly logical.

THE CHAIRMAN: Mr. Frawley suggests, as I gather, that the two are inconsistent. Well we will go back at it in a few minutes. We will rise for fifteen minutes.

(An adjournment of fifteen minutes was here taken).

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H. A. Miller

MR. FRAWLEY: I have no further questions to ask Mr. Miller.

THE CHAIRMAN: Well we suggest that Mr.Miller give throught to the suggestion I think the implied suggestion at least of Mr. Frawley, that there is inconsistency between your opening up of these new outlets to serve the farmers of which you speak and the withholding of licenses where the demands of the community about the towns do not seem to justify, at least do not seem to need any outlet. How do you feel about that? Is there some inconsistency in there or not? If not, how do you stack them up?

A I thought I covered that regarding the question that Mr. Comissioner asked relative to the discontinuance of the authorized buyers arrangement inasmuch as that undivided dealer would then be free to put in the product of the other companies that might now be operating. Is that what you want?

Q MR. COMMISSIONER LIPSETT: Yes. It is a very difficult picture to get logically, Mr. Miller, and I was just trying to raise it so that you could perhaps give it some further thought. Naturally as far as I am concerned and I have no doubt the Chairman too, I would be glad to get any help that I can from you?

A It is a difficult thing, Mr. Commissioner.

Q I can see your suggestion that some statutory clause in all contracts that dealers might sell everybody's products might have a suggested effect, and I consequently appreciated the point that Mr. Frawley was asking. He said, is it consistent to keep down the number of outlets

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in towns with your proposal to increase the number of outlets, even though they could sell everybody's products?

A Well, Mr. Chairman, when I made that reply to Mr. Frawley I did not do that from the standpoint of any selfish motive.

Q No there is not suggestion of it?

A I just want to mention that because I am quite sincere when I say from the observations and the analyses we have made of the Western marketing requirements, that greater convenience would be afforded the farmer, looking to the next ten years, than there is today. In other words, I do not think that it is giving the main producer of this Western country the same opportunity as the ordinary car consumer or truck consumer has today to stay with the present form of distribution. And I think that he is just as much entitled to as much convenience as the car consumer receives in this province for his operations, and as I mentioned formerly in my evidence today regardless of free delivery being in effect and regardless of the existing distribution as we have it today, 1,035 wholesale plants, he is considerably inconvenienced. Quite true, that is not so much adjacent to Calgary or adjacent to Edmonton - and that applies more particularly to Calgary - but when you go outside into the more scattered areas and to think that man in the future is going to buy less than he is now, then it should be made readily available for him at the wholesale price so that he is not inconvenienced by having to go as I said the other day, from 10 to 25 miles when he requires some petroleum products. This

new form of distribution of ours makes that possible and it makes it possible without increasing the cost to the consumer or increasing the cost to our company.

Q ME. FRAWLEY: Well, Mr. Miller, your proposition then is that the farmers in Alberta are not sufficiently served. In other words, just perhaps the opposite to the uninformed opinion of the man on the street, the ordinary citizen. That he is not too well served. You see, you take the Stettler area on your map which is part of Exhibit "442". We know where your stations are. But every railway station in this green irregular-shaped area which you now call your Stettler district - I wish my map was not away being corrected at the moment - every railway station in the Stettler area and perhaps some additional points off the railway have bulk outlets for petroleum products?

A At the present time?

Q Yes. I am saying that. Is that not so? I have to put it to you that way?

A I do not know. I hardly think that is so.

Q Along the line from Stettler to Coronation there is - it is a very well-known part of the province, we have Botha,, Gadsby, Halkirk, Veldt, Castor and Fleet?

A I would say - and this will have to be checked, of course - but knowing the area as I do I do not think there will be any wholesale outlet at Botha. I do not think there would be any at Halkirk or Veldt. I do think there would be one at Gadsby and Castor. I do not think there would be any at Fleet.

Q Well, you see, it is unfortunate.....?

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A But what I maintain, Mr. Frawley, is that the wholesale distribution only to the farmer.

Q Yes?

A Is that would be better served, the Stettler area, if there was wholesale facilities for the farmer in every one of those points.

Q MR. HARVIE: Let me get that. There would be no question there would be a retail outlet in those three points you mention?

A There might be, but if there is, I think there would be possibly only one very small one.

Q Your suggestion is to add to that your wholesale facilities?

A Yes.

MR. FRAWLEY: Of course, Mr. Chairman, that was the original purpose of the map. It will show the over-all picture of the whole of the province and then the Commission - I am going further and filing a statement showing the nature of the facilities at each point, the number of tanks whether underground or overhead, and the capacity of each tank, so that you will have in map form all of the information, and then I wish that you would, Mr. Miller..... Well, the Commission will just be able to say..... and I also have to file with the Commission some population figures on a map broken up into municipal districts with the population of each municipal district and each village and town, so that the Commission will be in as good a position then as any I take it to come to some conclusion as to whether or not the bulk facilities in the rural parts of the province were adequate or not?

H. A. Miller

A I think your chart is good there, Mr. Frawley, if you take a map of the entire province, and you plot in on that map the exact locations of the 1,035 wholesale distributing plants of whatever form they may be - and they all vary - on there you will then see as I have pointed out that notwithstanding the fact you have 1,035 wholesale plants that they are located in such a way that inconvenience to the farmer still exists.

Q Yes?

A And I think if you take that map and you take the total number of towns, which they must be, they must be towns, which would be 1,035, and then take your number of farms and the mechanization on those farms, that is also available, you will find that there are many areas over the entire province, possibly with the exception of in close proximity to Edmonton or Calgary, where the farmer is as I say at certain times of the year having to go from 10 to 25 miles to pick up half a drum or one drum of gasoline, which half drum or drum of gasoline would take care of his particular mechanized operations for a period of two or three weeks.

Q Mr. Miller, you have done a lot of work, a great deal of work for which I am very appreciative. But you have a lot of staff available, and I wonder would it be just too much to ask you to take one of those areas, one of your own areas or an ordinary rectangular area, take one of your own areas, because that indicates you have given it some thought, or two or three areas, and plot that area with all of the stations, who operates them, what the facilities are, and then superimpose upon that the

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lack of facilities that you say exist with a suggested station here or there which you think would be required to adequately serve the district, whether it happens to be one where you are going to put in a plant or not. If that is presented in a crystallized form to the Commission, it might be useful?

A If you will furnish me with the towns as you have them now showing the number of companies that are in those towns together with the total, I will be very pleased to take a map and paint a picture on the map for you and show you the tractor registrations and show you the farm registration and the acreage, which as I think will properly show that on the cash and carry plan, which in my estimation has got to come that the farmer is going to be more inconvenienced in the future than he is today, unless there are these wholesale facilities for the farmer.

Q I think that would be very useful and then you could come back, you could come back yourself or send somebody to present it, and call attention to these things that perhaps would not go on the map. I think there is great value in having a map picture of these things?

A If we prepare that as we are also going to do the picture covering the State of Montana, if possible, I would prefer to submit it in person.

Q To come and do it yourself?

A Yes.

Q All right, Mr. Miller, thanks.

THE CHAIRMAN: Of course, I was going to say at some time - perhaps it is not practicable -

but at some time we will be very much interested in your general views as to what the Governement could do in Alberta that would help this industry. I keep repeating that because I think it is of importance, and I would like the thoughtful consideration of a company whose personnel have given a life-time to the business and might bring a lot more wisdom to bear upon it than we could without assistance of that character?

A I am sure, Mr. Chairman, I will be very glad to do that at the same time we submit the Montana picture and this Province of Alberta distribution that I refer to.

Q That will be very nice. Thank you.

MR. FRAWLEY: Thank you very much, Mr.Miller.

Q MR. COMMISSIONER LIPSETT: I do not know whether this is a matter that you would have any personal knowledge of. We have had a general picture that most of your lubricating oils are imported?

A That is right.

Q Into this province from some of the States and, I suppose, from other refineries. Is that due to the nature of the Turner Valley crude oil, or is it because the existing refining companies have not put up in this province a plant?

A I think I could best answer that, Mr. Commissioner, in this way. At the present time, there is no crude oil available in Canada to produce certain standard automotive oils that are necessary to the trade today.

Q MR. HARVIE: You mean by that that the Turner Valley crude, for instance, is not capable

of producing proper lubricants on account of its make-up?

A I would prefer for you to get more expert advice on that than I can give you, but it is my understanding that it would be impossible to make automotive lubricants required today from Turner Valley crude oil. All automotive oils now manufactured in Canada are manufactured from imported crude. The arrangement we have, which I have outlined, is that as far as our automotive oils are concerned as we are desirous of having one standard and quality from coast to coast, to enable us to do that, it is essential in the first place that the crude must come from one particular source. In other words, you cannot make your product, or you cannot make product uniform and identical by using several types of crudes. For instance, in the United States, some companies marketing from coast to coast sell one brand of oil. That brand of oil is made from many different types of crude, but through a manufacturing process that is adopted, they bring about a similarity in the brand across the country. We do not feel that that process is of the best. Therefore, the motor oils we are selling in Canada in the first place the crude for their manufacture comes from one field only. That is transported not by pipe-line and mixed with other crudes but it is imported in tank cars to the refinery at Chicago. We have the exclusive production of that refinery. After our requirements are provided for, the surplus, if any, is sold to other sources in the United States. The motor oil is patented, or it is manufactured by an exclusive patented process and it is only sold

by the British American Oil Company in Canada. That is the reason we go to the States for the products as I have just outlined.

Q MR. COMMISSIONER LIPSETT: At the moment then, is your understanding, Mr. Miller, Turner Valley crude oil would not be suitable oil for the production of these lubricants in the province?

A I think I am right in that, Sir, yes.

Q I was just putting it to you from the point of whether there were any suggestions that you were making or any suggestions that could be made to assist the general industry in the province by supporting the manufacture of it in the province?

A With automotive oils used in motor cars and aeroplanes, the first consideration is the motor oil and the last consideration is the by-product.

Q Yes?

A In cheap miscellaneous oils, red oils and lubricants used on shaft lines, are made out of by-products from crude after the gasoline is taken from it. In other words, the first consideration is the gasoline and the cheaper lines of oils which answer the purpose are made from the by-products, and the first consideration is the gasoline. With high-class automotive oils, the first consideration is the crude. As a further illustration of that, the motor oils that are refined from the crudes as far as our motor oils are concerned, there is no other by-product except the light distillate.

THE CHAIRMAN: Any more questions?

MR. FRAWLEY: That is all.

H. A. Miller

MR. NOLAN: Before Mr. Bronsden is called, if I may refer to Volume 81, being June the 19th?

THE CHAIRMAN: Volume 81?

MR. NOLAN: Yes, Sir, the pages 9356 to 9359 inclusive, being the discussion with Mr. Halverson in respect of this jobbing situation. If the Commissioners will read that, I think that is the only place to which reference is made to that particular point, and it is very much along the same line as the question that was put to Mr. Miller, surprisingly so. It is a question of the Chairman to the Witness in almost the same language.

(Go to Page 11,313)

HERBERT HARTLEY BRONSDON, havin
been first duly sworn, examined by Mr. Harvie said:

Q Mr. Bronsdon, you are an official of the British American Oil Company Limited?

A I am.

Q Just what offices do you hold?

A Secretary and Comptroller.

Q How long have you been with the Company?

A I joined the British American Oil Company in 1921. Prior to that date I was the secretary-treasurer of the Winnipeg Oil Company Limited which operated in the three Western Prairie Provinces. Upon their, upon the acquisition or the purchase of that company by the British American Oil Company Limited I then joined the staff of the British American Oil Company Limited in 1921.

Q So you have been connected with the oil industry more or less all your life?

A Yes, I have been in the oil business over 30 years.

Q And it was through the acquisition of the Winnipeg Oil Company Limited that the British American Oil Company Limited came into the West?

A That is correct.

Q In 1921?

A In 1921.

Q And your headquarters were Winnipeg?

A Yes, I was located at Winnipeg, holding the position of Assistant Manager, Western Division.

Q And how long and what experience have you had in connection with western business in the Oil Industry?

A Well, I was the Assistant Manager from 1921 until 1924 and then I became the Manager.

Q That is with headquarters at Winnipeg?

A Headquarters at Winnipeg.

Q And operating throughout the three Western Provinces?

A Operating throughout the Western Provinces.

Q Yes?

A In 1924 to 1931, at which time I was transferred to the Head Office.

Q And your duties still keep you in close touch with Western conditions?

A Yes, as Comptroller and Secretary I am fully conversant with the operations of Western Canada.

Q Now you have been requested to present on behalf of that company some evidence to this Commission?

A That is correct.

Q Will you just proceed. I might say, Mr. Chairman, this is in the form of Volumes 4 and 5 of the company's brief and I think that they might be marked as Exhibits.

THE CHAIRMAN: You are offering both of them now.

MR. HARVIE: Yes, there will be references back and forth.

THE CHAIRMAN: Then Volume 4 will be Exhibit "475".

(VOLUME 4 OF B. A. COMPANY'S BRIEF HERE MARKED AS EXHIBIT "475".)

THE CHAIRMAN: And Volume 5 will be Exhibit "476".

(VOLUME 5 OF B. A. COMPANY'S BRIEF HERE MARKED AS EXHIBIT "476".)

H. H. Bronsdon

Q MR. FRAWLEY: Mr. Bronsdon, before you begin, I see Volume 4 is called "Refinery Activities" and just taking a quick glance at it, you seem to start off right away about the refinery operations of the company, that is so is it?

A Yes, the first paragraph deals with refining activities and then we proceed from there to the trading results for the year 1936, estimates of our refining operations for 1939 and so on.

Q Yes. As a matter of fact, I think it might be a good idea if you did and if you were to just outline the points which you are going to cover, but what I was thinking about was something else, do you intend to tell us what the company is and deal with this often-mentioned quetion of your being independent or otherwise. I know, I have heard you state very definitely that your company is a wholly independent company and so on. Now, I wondered at what stage you intended to do that and the reason I interrupted there was so that, I think it would be a good time to do it at the beginning as it is a matter of a very general nature, you might tell us about the company and submit what material you think you should in connection with the distribution of shares over the country, this country and other countries, and generally deal with that before you go on into the particular business of the company.

A Mr. Miller in his brief referred to the company as being an independent company, the majority of its shareholders of Canadian origin and I believe at your request I filed

with you some time ago a statement of the shareholders and their domicile.

THE CHAIRMAN: That was months ago.

MR. HARVIE: Yes, during the early part of the pipe line hearing.

WITNESS: I did not intend to make any further mention, Mr. Frawley, in connection with that.

MR. FRAWLEY: That might be quite right, that may have been all done.

THE CHAIRMAN: At any rate without taking any time on it, I understand your position is that your company is quite independent of any other oil company?

A That is correct, sir.

Q And that there is no control either direct or indirect, by capital investment or otherwise, or a working control, enjoyed by any other company in relation to your company?

A That is correct and to start with I forwarded to Mr. Harvie and I believe he has it in his possession, an affidavit of our President to that effect.

MR. HARVIE: I might just read that and put it on the record at this stage, that on Page 1 of Volume 1, Exhibit "442", Mr. Miller's brief, the second paragraph just summarizes the situation:

> "The British American Oil Company Limited is an "enterprise strictly 100% Canadian; that 95% of "its shareholders reside in Canada, owning 82% of "the corporation's issued capital."

And there has already been filed a list of directors and the details.

H. H. Bronsdon

THE CHAIRMAN: Of course it is well recognized in the United States that there is such a thing as having a working control without an actual control of the company. It is recognized by public utility bodies there but the witness says that is not the case here, that his company is a wholly independent one and it need not bow to anyone, as I understand the position?

A That is correct.

Q And it matters not how it is brought about, there is in fact no control of the British American Company, that is your statement, is it not, Mr. Bronsdon?

A Yes.

Q THE CHAIRMAN: You say you have something you wish to file?

(Document produced by the witness)

MR. HARVIE: Yes, I think that might be a little additional information.

WITNESS: This is a copy of an affidavit signed by Mr. Ellsworth, A. L. Ellsworth, President of the British American Oil Company Limited which was filed with the Tariff Board at Ottawa in 1935 and the position is substantially the same today.

Q MR. FRAWLEY: Is that the affidavit which was filed before the Tariff Board hearing by you?

A That is correct.

Q At my request?

A That is right.

MR. FRAWLEY: This will be accepted and filed as an Exhibit, Mr. Chairman, it is certified by Mr. R. L. Hughes, the Company's solicitor.

THE CHAIRMAN: It is only of value in that the witness says the position of the Company to all intents and purposes is the same thing today.

MR. FRAWLEY: But you desire to file it and put it on the record?

MR. HARVIE: Yes.

THE CHAIRMAN: Yes, it will be Exhibit "477".

(AFFIDAVIT OF MR. ELLSWORTH PRODUCED AND MARKED AS EXHIBIT "477")

THE CHAIRMAN: We might hear what it says?

MR. FRAWLEY:

"Dominion of Canada) In the Matter of Reference
"Province of Ontario) Number 84
"County of York)
" To Wit:) The Tariff Board of Canada

"I, Albert LeRoy Ellsworth, of the City of "Toronto, in the County of York, President, " Make Oath and Say as Follows:

" 1. I am the President of the British American Oil "Company, Limited.

" 2. That no person or corporation in Canada or elsewhere, either within or without the oil industry has "voting control of said Company.

" 3. The authorized capital of the Company consists "of 3,200,000 shares, no par value, of which "2,622,642 shares have been issued.

" 4. As of September, 1935, there were 17,421 "shareholders of which 9,330 were registered

H. H. Bronsdon

"Canadian Shareholders representing 1,371,889
"registered shares, and 308 foreign registered
"Shareholders representing 282,909 registered
"shares; and 7,591 Canadian holders of share
"warrants representing 839,740 shares and 192
"foreign holders of share warrants representing
"108,126 shares, and in addition thereto there
"were 19,978 shares held by holders of share
"warrants whose address was unknown.

" 5. Of the total number of Shareholders
"97.13 per cent are Canadian Shareholders
"representing 84.33 per cent of the issued capital
"stock of the Company.

"SWORN before me at the City)
"of Toronto, in the County)
"of York, this 29th day of) (Signed) A.L. Ellsworth
"November, A. D. 1935.)

" (Signed) R. L. Hughes

" A Commissioner &c. "

Q MR. FRAWLEY: It is difficult to say with any exactness and any percentages the situation with respect to the warrants, is it not?

A That is an approximate figure, Mr. Frawley.

Q But I mean the last paragraph where Mr. Ellsworth gives us the percentage 97.13 per cent of the total number of shareholders are Canadian, representing 84.33 per cent of the issued capital stock of the company, now does that last percentage take in the share warrants or is it all stock?

A Well, that figure includes the share warrants but it is fairly accurate. The reason it is, that just about

that time we had to exchange shares for the share warrants in order to furnish the holders with a new set of coupons and we had a chance to get a fairly accurate account of the names and the domicile.

Q I wrote you on the first of February and asked you to make up, no, on the 16th of January, to make up a statement of the shareholders showing the domicile by provinces or country up to date and Mr. Harvie tells me that that is very difficult to bring up to date?

A Well, I believe we forwarded you a statement of the last survey that we made.

Q I had better look at that, what was filed here during the pipe line inquiry you say is up to date to what extent?

A Well, it was the last survey which was made and which is within a year.

MR. FRAWLEY: That is fine then.

Q MR. HARVIE: All right, I think you might proceed with your brief.

A The British American Oil Company Limited was first organized in Ontario, in 1906, commencing with the distribution of Kerosene, Lubricating Oils and Greases. As the business grew, it soon became evident that the manufacture of Petroleum Products for automotive fuel was of prime importance and in order to meet the demands of the market available, a refinery was established in Toronto in the year 1908. This refinery, which has been reconstructed with many improvements at various succeeding

dates up to the present, has a capacity of 6,000 barrels per day.

In Ontario, it was shortly recognized, through the rapid progress the Company was making in its sales, that it would be necessary for it to widen its operations. A Dominion Charter for this purpose was therefore obtained in 1909. Operations continued satisfactorily in Eastern Canada, and by 1921, the use of the automobile had become so general, and the demand for British American products so extensive, it was determined that in order to service its customers it would be necessary for the Company to extend into wider fields. It therefore purchased the assets of the Winnipeg Oil Company and commenced the extension of these operations throughout Western Canada. The business of the Company has so increased by 1931 that it became necessary to provide its products through the operation of its own refineries, for economic delivery in Alberta and Saskatchewan.

In 1933, the Company purchased the physical assets of the Sterling Oil Refineries Limited, Moose Jaw, Saskatchewan, and also the Coutts Refinery of the Northwest Stellarene Company.

This was the beginning of the extensive refinery operations of the Company in Western Canada, first through the remodelling and reconstruction of the Coutts Refinery, and secondly, through the building of a new Refinery at Moose Jaw.

In order to properly service the Coutts Refinery with crude oil from the wells then owned by the Company in Montana, it was necessary to construct a pipe line from the Cutbank Field to Coutts, in 1934, at a cost of $150,000.00. The pipe line consists of 26½ miles of 5" pipe which runs from a point 6 miles north of Cutbank Field to Coutts. Gathering lines bring the crude from the wells to this point at which was built a pumping station and tankage and from hence the crude was moved to Coutts. This line is now idle due to the economic changes recited in this brief and, because its fundamental use has ceased, is a loss through absolescence which must be provided for out of earnings.

The Company's operations were accelerated by entering into direct Refinery operations in Western Canada. This progress has been continued up to the present time, as has been shown by the graphs for the years 1928 to 1938. submitted in evidence by the General Sales Manager.

In the construction of its new Refinery at Moose Jaw, the Company expended some $1,250,000.00 for a capacity of 4,000 barrels per day, and expended approximately $550,000.00 in the extension and remodelling of the Coutts Refinery, with a capacity of 2,500 barrels per day.

It soon became evident that in order to service its customers with all of the Petroleum Products that are available in Western Canada,

it would be necessary for the Company to obtain such products as naphtha and natural gasoline as were available in Turner Valley, for distribution in Alberta and Saskatchewan. With this objective in mind, the Company, in 1935, entered into contracts for the purchase of production of gas and naphtha from wells then in operation and contemplated, at a capital expenditure in excess of $450,000.00, and in order to process the natural gas thus contracted for, an Absorption Plant with gathering lines was completed in 1936, with a capacity of 60,000,000 cubic feet, at a cost of approximately $350,000.00.

The Refineries at Coutts and Moose Jaw, supplied our entire requirements of Petroleum Products in Western Canada, including Alberta, British Columbia, Saskatchewan and the western part of Manitoba, during 1934, 1935 and the greater part of 1936.

In June, 1936, the Company was instrumental in assisting in bringing in the first crude well of large capacity in Turner Valley, which established the present crude area on the Western flank of Turner Valley. This crude was delivered for the processing on its account to the Imperial Oil Company's Refinery at Calgary.

In October, 1936, after considerable negotiations, a reciprocal Refinery Agreement was executed with the Imperial Oil Company to provide for the refining of crude available to the

British American Oil Company from its Turner Valley contracts, at the Imperial Oil Company's Calgary Refinery, and an exchange agreement for the refining of the Imperial Oil Company's Cutbank crude in our Coutts Refinery, the finished products of which supplied the economic areas lying adjacent to these two shipping points.

About October, 1937, due to the production of crude oil in sufficient quantities in Turner Valley, the Imperial Oil Company discontinued supplying us with Montana crude for processing to their account at Coutts. This reduction in crude runs at Coutts made it unprofitable to continue the Coutts operations, which were therefore discontinued at the end of 1937 when our contract for crude terminated and at the same time processing of Turner Valley crude at the Imperical Oil Company's Refinery at Calgary was increased.

Notwithstanding the accumulation of petroleum stocks of finished products at Calgary through our Processing Agreement in the early part of 1938, it was soon realized that with the crop prospects, increased supplies would be necessary. This, along with the curtailment of the amount processed by the Imperial Oil Company on our account, made it necessary for us to re-open both Coutts and Bell Refineries in August, 1938, to take care of our market requirements.

Q MR. FRAWLEY: That is the first time I think you have mentioned the Bell Refinery, do you think you should stop there to historically give

an account of the acquisition of that or would you prefer to do it at some other time.

THE CHAIRMAN: I think if the witness is allowed to go on, you might just make a note of anything you wish, Mr. Frawley. It seems to me, I know if I were doing it, it would be much simpler to follow along the way I prepared my submissions.

MR. FRAWLEY: Quite so, but I thought perhaps, I really thought when he was dealing with the acquisition of these refineries, he simply omitted the Bell because now he is referring to the Bell and there is nothing in the proceeding part as to how you acquired it. I am quite in accord with the Chairman's suggestion.

A We will make a statement on that at a later date but I believe that has been covered pretty fully in Mr. Miller's references to the Bell marketing activities as a jobber.

MR. HARVIE: I think we will just carry on if we may and file a complete statement of that.

THE CHAIRMAN: All right.

WITNESS: I will just repeat. This, along with the curtailment of the amount processed by the Imperial Oil Company on our account, made it necessary for us to re-open both Coutts and Bell Refineries in August, 1938, to take care of our market requirements.

In July, 1938, we were notified by the Imperial Oil Company that it would be necessary to curtail the amount processed on our account

from 1,500 to 900 barrels per day. This continued throughout the balance of the year and until the opening of our plant on the 1st of May, 1939.

The curtailment of our Processing Agreement to the minimum and the inability of the Imperial Oil Company to increase same without extensive additions to their plant, required that immediate action be taken to provide further refinery capacity to meet our market demands. After very full consideration of all the factors and avenues left to the Company to obtain additional capacity, it was finally decided to build our own Refinery in Calgary which was completed by May 1, 1939.

Among the considerations which prompted this move were the following:

1. We required a Refinery of our own to successfully compete in the market.
2. A definite customer demand for our Products.
3. Insecurity of supply without a Refinery.
4. Limitation of our ability to supply Products to our specifications.

Q THE CHAIRMAN: I suppose, is that an error, Mr. Bronsdon, "Limitation of our ability to supply Products to our specifications", I was just wondering if you meant "to obtain Products" to your own specifications?

A Yes, that is a typographical error.

Q All right.

A It should be "obtain".

5. Loss of freedom of action to change specifications to meet changing market requirements as we determined, according to our analysis of conditions.
6. Being a Nation-wide Company, it is necessary we market Products of uniform standard specifications throughout Canada, for the various markets and different periods of the year.

Some questions have been asked us regarding the operations of our new Refinery at Calgary, it is difficult at this date to estimate very accurately what our operating costs will be. From present indications it is safe to assume that the Refinery will operate at nearly maximum capacity for the year 1939. The average running cost at Moose Jaw over the last four years was 65.4¢ per barrel and taken on a comparable basis, it would appear that our costs at Calgary will be slightly lower than this figure.

A Refinery in Alberta, in view of the seasonal demands, must necessarily for economy operate on a low yearly load factor, and under conditions which are not comparable with conditions existing in Central Canada or United States. Agricultural operations require large quantities of Gasolene and Distillate with Gasolene content, during Summer operations. To operate on a uniform load factor throughout the year and store to meet this demand, would require the manufacture of a product that would be higher in quality and allow of degradation, or accept the lowering of grade at a market disadvantage. To operate continuously would mean

not only large expenditures for storage tanks, but more serious, the loss or depreciation of product.

The economies of providing additional storage as against increased plant capacity have been investigated by our Refinery Engineers on numerous occasions having regard for:

(a) Increased inventory costs.

(b) Increased evaporation losses.

(c) Increased cost per storage.

(d) Increased loss due to carry-over and loss at Refinery due to failure of crops to meet anticipated estimates. It is impossible months prior to estimate the market due to agricultural conditions obtaining in any one year.

Assignments and estimates of production for marketing needs are made continuously during the Spring months, based upon estimate of probable crop yield, which, in turn, are forecasted from weather reports from time to time and other pertinent data. As an illustration of the impossibility of prior estimates at dates long before market requirements is the record of the forecasting for the grain crop of 1936, as given below.

The Second week of June, an estimate of 375,000,000 to 400,000,000 bushels. Actual turnout in Alberta, 67,000,000, the smallest crop on a pro rata basis

H. H. Bronsdon

Alberta ever raised. 215,000,000 bushels throughout Western Canada. Up to and including the first of June, good supplies of rain. The last heavy general rain on the 9th of June and from then on rains negligible until harvest.

(Go to Page 11,330)

H. H. Bronsdon.

MR. COMMISSIONER LIPSETT: That 375 to 400 millions, what Provinces do they cover, Mr. Bronsdon?

A That was an estimate of the total Western crop, Mr. Commissioner.

Refineries in Western Canada cannot perform or utilize storage similar to U. S. Refineries; that is, running fuel oil to tanks in the Summer and Gasolene in the Winter;

It is considered that the most economic operation of a Refinery corresponds very closely to Moose Jaw operations from commencement to when it reaches full economic capacity. Attached graphs Nos. 2 to 5 give full information on the character of operation at Moose Jaw.

Referring to those graphs, it might be advisable to go over them.

MR. HARVIE: They will be found in Volume 5.

A They illustrate very clearly the conditions that we have to face in Western Canada in regard to crops and moisture and so on.

THE CHAIRMAN: What are you referring to in Volume 5?

A Graphs 2 to 5, Mr. Chairman.

Q Graphs 2 to 5?

A Yes, covering the history of our operations at the Moose Jaw refinery in the years 1935 to 1938 inclusive.

Q MR. HARVIE: There is one graph for each year?

A There is one graph for each year and they illustrate the conditions that we have operated under in these four years in that area. 1935 our Moose Jaw refinery operated on the lowest load factor in the history of the company

due to crop conditions. The load factor was 36% that one year.

Q MR. HARVIE: You mean by that you only used the refinery capacity to 35% of its potential?

A 36% of its potential in the year. That is correct. In the lower part of the graph we show the runs in the different months of the year. Referring to graph No. 2, January and February there was no crude run at the refinery. March we ran 12,000 barrels. You will notice, looking at the top of the graph where it shows cost per barrel of crude run that in the month of March it cost us $1.54 per barrel on account of the small throughput. Then in April the run increased to 38,000 barrels.

Q THE CHAIRMAN: Where do we find that $1.54?

A There, Mr. Chairman.

Q Yes?

A In April the run increased to 38,000 barrels, and cost 80 cents per barrel. In May the run is 36,000 barrels and the cost is 64 cents per barrel. The reason that the cost is 64 cents and is so much lower than the 80 cent figure is because there was no cracking operation in that month. Cracking operation adds very considerably to the cost. Then in the month of June the crude run amounted to 40,000 barrels and the run cost 74 cents. The month of July our crude run jumped up to 70,000 barrels and our running costs dropped to 49 cents per barrel. In August the crude run amounts to 68,000 barrels and the cost 53 cents per barrel. In September the crude run is 86,000 barrels and the cost 46 cents per barrel. In October 75,000 barrels and the cost 58 cents a barrel. In November the crude run drops down to 30,000 barrels at a cost of

$1.00 per barrel. In December the crude run is 36,000 barrels and the cost 80 cents per barrel. Now, the total crude run in the year is 492,069 barrels at an average cost of 73.4 cents per barrel.

Q MR. COMMISSIONER LIPSETT: Would you mind giving me that total figure again?

A 492,069 barrels at an average cost of 73.4 cents per barrel.

Q THE CHAIRMAN: You are not speaking of what you paid for the crude but what it cost you to refine a barrel of crude?

A That is the cost of refining a barrel of crude. And this chart illustrates how that, because of the variable load factor, the cost varied with the load carried. And that has a very important bearing on refining costs, because in this particular year in question our load factor was only 36% of the capacity, that is the average over the year. As a result of that our cost was 73.4 cents, and we wish to emphasize this because these are actual operating conditions at Moose Jaw and they will apply in a large measure to certain statements that we will make later on in regard to our estimates of the cost of running at the Calgary refinery for 1939.

Q MR. COMMISSIONER LIPSETT: Your cost runs from just under 50 cents to over $1.50?

A Yes.

Q According to the throughput?

A According to the throughput.

Q It certainly makes a very startling difference, does it not?

A Yes, Sir, it does. Just to emphasize the difference in running costs, I will go over the detail of the operation

H. H. Bronsdon.

in 1938.

MR. HARVIE: That is the fourth graph?

A That is the fourth graph in the file.

Q Just so there is no error in checking this later, Mr. Bronsdon, if you will refer to graph No. 2 in your book, I notice on the top righthand corner it is designated Graph No. 2 in red.

THE CHAIRMAN: Yes, Moose Jaw refinery, year 1935.

MR. HARVIE: Away down halfway on the lefthand side of the graph it is referred to as Graph No. 1. The correct reference is the graph number at the top of the page

A At the top of the page.

Q And we should strike out the graph number 1 where it appears on the left on the centre of the page?

THE CHAIRMAN: And the same way right through the others?

A Yes.

Q Graph No. 2 is really Graph No. 3. Strike out the graph number in the centre of the page throughout.

MR. HARVIE: On Graph Nos. 3 and 4, there is no reference on Graph No. 5. That comes about through the picture being revised and the brief changed and the new figures added on.

MR. COMMISSIONER LIPSETT: Perhaps if he is not referring to the intervening graphs it would be as well to put on the record the average cost. I see it is there for the intervening years.

MR. HARVIE: I think he proposes to deal with the intervening graphs but he was just at the moment going to illustrate the difference between 1935 and the 1938

costs, just to emphasize the point.

A Maybe fobefore I proceed with 1938----

Q I think you might just take 1938, just as your final figure. You can go over 1936 and 1937. But no doubt that will bring out the point better?

A In 1938 we operated at the Moose Jaw refinery on a load factor of 68.3%. Because of that we saw a much more favourable refining cost. In the month of February----

Q The refining cost for that year, according to that graph, was 56.8 cents?

A Yes.

Q As against 73.4 cents in 1935, where your load factor was 36%?

A That is correct. The month of February, 1938 our crude run amounted to 78,000 barrels. The refining cost per barrel was 55 cents. In March we ran no crude. The refinery is closed down as a rule about 50 to 55 days a year for inspection and repairs and overhaul. March there was no crude run. In April we ran 8,000 barrels and because of the small amount run our costs amounted to $4.04 per barrel. In May our run was 56,000 barrels.

THE CHAIRMAN: It is certainly a very striking example you are making your point with?

A Yes, Sir.

Q MR. COMMISSIONER LIPSETT: I suppose that that was for some special reason that you run at all there?

A Well, Mr. Commissioner, it mostly is due to economic conditions. It might have been that just as we recited before crop reports, incident to crop reports we would fill our storage and then the sales would drop off because of the deterioration in the crop and the smaller crop and

we would have the stocks to carry over until the next year. Then in our estimate for the succeeding year we would have to allow for the inventories on hand, resulting in lower runs until we reached the time in the year that we could clearly see what our requirements would be.

Q MR. FRAWLEY: How could you have a cost per barrel when you did not run any barrels?

A We have not.

THE CHAIRMAN: They ran 8,000?

A We ran 8,000 barrels in April.

Q MR. FRAWLEY: Oh, you did run some barrels, and it was $4.04?

A Yes, that is a barrel. In March there was no run and no cost.

Q No.

A In June we ran 65,000 barrels at a cost of 64 cents per barrel. In July 80,000 barrels at a cost of 50 cents per barrel. In August 118,000 barrels at a cost of 37 cents per barrel. In September we ran 125,000 barrels. We pushed the plant to capacity in that month. It only has a rated capacity of 120,000 barrels. Our cost averaged 40 cents. In October we ran 95,000 barrels and it cost us 46 cents per barrel. In November, 120,000 barrels and it cost 37 cents per barrel and in December, 46,000 barrels at a cost of 88 cents per barrel. The total for the year was 769,277 barrels, with an average cost of 56.8 cents per barrel.

Q MR. COMMISSIONER LIPSETT: Would you repeat the total barrellage figure?

A 769,277. Now, referring again to the brief.

Q MR. HARVIE: For the purpose of putting it on the record, would you refer to 1936 and 1937, as ssuggested by the Commissioner?

A In the year 1936 we processed 533,619 barrels, and the average cost in that year is 72.3 cents per barrel and in 1937 we processed 641,725 barrels and the average cost is 64.2 cents per barrel. Now, referring again to the brief.

From Graph No. 5, you will note that we have reached approximately the maximum capacity of this plant, having regard to the seasonal demands. Any material increase in market demands in the area supplied by this Refinery will necessarily mean increase in capacity to meet same, which, in view of the character of the plant, no doubt economies will dictate a duplication. In such cases, the load factor immediately drops in both plants from the load factor at maximum capacity to half this load factor plus half the increment in additional demand.

At the request of Mr. Frawley, we have a prepared an estimate of our operating costs of the refinery at Calgary for the year 1939, which statement covers estimates of costs of processing 43.5 Gravity A. P. I. crude from Turner Valley in the Calgary plant, for a load factor of from 10% to 100%. For load factors in excess of 80% allowance will have to be made for additional tankage.

MR. FRAWLEY: Do you want to identify this specially?

THE CHAIRMAN: Well, I would think so. Do you suggest that should be marked as a separate document, Mr. Frawley?

MR. FRAWLEY: Apparently Mr. Bronsdon had that

in mind when he prepared this.

MR. HARVIE: Yes, it might be a simple matter, then we can always refer to the Exhibit instead of to the statement. It is immaterial otherwise, as it is all in as part of the Exhibit.

THE CHAIRMAN: Is it your suggestion that it might be easier for Dr. Brown, and more convenient?

MR. FRAWLEY: Yes, I think, perhaps, it would.

THE CHAIRMAN: Then we will marke it Exhibit "478", Mr. Harvie, if that pleases you?

MR. HARVIE: Yes.

A In Connection with that statement we have also prepared a graph showing the same information in graph form.

Q MR. FRAWLEY: It relates to the Calgary estimates and deals with the Calgary estimates?

A Yes.

MR. FRAWLEY: Mr. Chairman, that might also be marked, Exhibit "478".

A It accompanies the statement. It immediately follows that statement.

THE CHAIRMAN: Will it be referred to separately?

MR. FRAWLEY: It may be. We might give it another number, perhaps.

THE CHAIRMAN: I think so. They are not interlocked and not dealt with together, then they might be marked as two Exhibits.

MR. HARVIE: That is just a suggestion. These things are all related to Volumes 4 or 5. It might be that we could refer to these graphs as "476 A, B and C". It might simplify it.

H. H. Bronsdon.

THE CHAIRMAN: We have passed that. We have your Presidnet's affidavit as of Exhibit "477".

MR. HARVIE: That was not included in Exhibit "476", which is this book of graphs.

THE CHAIRMAN: Well?

MR. HARVIE: Just as a matter of convenience, Mr. Chairman.

THE CHAIRMAN: I see no objection to it, Mr. Harvie. Do you, Mr. Frawley?

MR. FRAWLEY: No, there is nothing in this book but graphs and statements. Do you propose to give everything in this Volume 5, Exhibit "476" and a letter?

MR. HARVIE: I would suggest we take Graph 2 and letter it, "476-A".

MR. FRAWLEY: All right.

THE CHAIRMAN: Well, all right. Now, we still are retaining No. Exhibit "476" for the whole book?

MR. HARVIE: Yes.

THE CHAIRMAN: And the first graph, which is No. 2, will be A and the next graph, which is No. 3, will he B, and the next one, which is No. 4, will be C, and the next one, No. 5, will be D. Then that which we have made Exhibit "478", which happens to be that document, will be made "476-E".

MR. HARVIE: Yes, if we can continue and mark all the graphs in this book.

THE CHAIRMAN: Yes.

MR. HARVIE: The graph attached to that statement will be Exhibit "476-F".

THE CHAIRMAN: Then you come to another graph marked No. 1.

MR. HARVIE: Yes, the trend in the production

of motor fuel constituents, that will be No. "476-G".

THE CHAIRMAN: The next statement?

MR. HARVIE: The following statement will be "476-H". That is a schedule showing details of the cost of commodities manufactured in the Province of Alberta. It includes Sheet 1, Sheet 2, Sheet 3, Sheet 5, and Sheet 5-A?

A I would suggest that each statement be given a letter. That is "476-H," and go right on from there.

THE CHAIRMAN: I think so too. The next will be I.

MR. COMMISSIONER LIPSETT: Summary of Stock Adjustments will be Exhibit "476-H".

MR. HARVIE: Yes, materials and commodities "476-J". Schedule of Refinery Costs will be "476-K". Cost of Commodities produced and sold in the Province of Alberta will be "476-L". Schedule of Commodities Purchased from Other Companies and Divisions will be "476-M". Commodities produced and Sold will be "476-N". Marketing Department Sales, "476-O".

Q MR. FRAWLEY: These are related, aren't they?

A Yes, these are related, they run right through.

Q They will be all one Exhibit then?

THE CHAIRMAN: "476-O" will be how many pages?

A 4 pages. The others are not related.

MR. HARVIE: Pages 1, 2, 3 and 4.

MR. FRAWLEY: Marketing Department Sales.

THE CHAIRMAN: Page No. 5 should be given another letter.

MR. FRAWLEY: "476-P", Marketing Costs,

Province of Alberta, Year 1938.

THE CHAIRMAN: Page 6 is just the one page, "476-Q". Page 7 will be "476-R".

MR. FRAWLEY: And statement of Trading Results?

MR. HARVIE: "476-S". Sales in the Province of Alberta, "476-T". Statement of Capital Employed, "476-U". Graph No. 6, being Trend of American Passenger Car Engine Designed since 1925, "476-V". Graph No. 7, "476-W". Graph No. 8, "476-X".

THE CHAIRMAN: Well, we will continue on Monday morning.

(At this stage the Hearing was adjourned until 9:00 A. M. Monday, July 17th, 1939.)

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J. J. FRAWLEY

The Province of Alberta

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IN THE MATTER OF THE PUBLIC INQUIRIES ACT

—and—

IN THE MATTER OF a Commission, dated the 12th day of October, A.D. 1938, to inquire into matters connected with Petroleum and Petroleum Products

Commissioners:

The Honourable MR. JUSTICE McGILLIVRAY
(*Chairman*)

—and—

L. R. LIPSETT, ESQ.

Session:

CALGARY, Alberta JULY 17th, 1939

VOLUME 101

BOX- 83

I N D E X

VOLUME 101 - July 17th, 1939 Page

WITNESS:

Herbert Hartley Bronsdon, recalled.....11,341

HERBERT HARTLEY BRONSDON, having been recalled, examined by Mr. Harvie said:

Q MR. HARVIE: All right, Mr. Bronsdon, I think you might proceed with your brief.

A When we left off on Friday, we had just come to Exhibit No. "476" "E"; this Exhibit is the estimate of the Calgary refinery operating costs versus load factor for the year 1939 and subsequent years.

Q THE CHAIRMAN: Would you mind explaining just precisely what that means "versus load factor", Mr. Bronsdon?

A Well this statement, Mr. Chairman, is intended to indicate the variations in cost brought about by the amount of crude run through the plant; in other words, if we could, if it were possible to run this plant at 100% capacity we would have a very much lower cost per barrel than we would ----

Q Less cost per barrel?

A Less cost per barrel than we would if we were running it at say 50%.

Q On the principle that your overhead is exactly the same?

A Yes, and certain other operating factors to which I will refer in the statement. The statement covers an estimate of costs ranging from 100% load factor to 10%; it commences with 10%, 20%, 25%, 30%, 40%, 50%, 60%, 70%, 75%, 80%, and then we interject 80.2% because that is the actual 1939 estimate and then we proceed to show the cost at 90% and at 100%. At the bottom of the sheet we show the cost per barrel and you will notice that if we operated at the 10% load factor our cost per barrel

H. H. Bronsdon

would be 2.77 cents per barrel.

Q THE CHAIRMAN: That is 10% of your capacity, as I understand it?

A 10% of the capacity; 10% of our capacity would be around 349 barrels of crude per calendar day and if we only ran that quantity our costs would be 2.77 cents per barrel.

Then jumping over to say the 50% load factor, at 50% we would run 1746 barrels of crude per day, it shows at the top of the page.

Q Yes?

A And the run cost would be 80 cents per barrel. As I said before, 1939 we estimate our load factor will be 80.2% and on that basis our cost we estimate will be 62 cents per barrel. You will notice in the details that operating labor is $80,582.00 and that does not change right across the sheet. Repairs would change with the amount of crude run. Office and Management is a fixed figure. Compensation practically fixed figure. Operating material varies with the throughput. Repair material varies with the throughput. Chemicals vary with the throughput. Refinery fuel varies with the throughput. Electricity and water and taxes also vary with the throughput. Insurance is a fixed item, likewise depreciation. General and Administrative varies with the throughput. The total cost of operating the refinery at the 10% load factor we estimate would be $352,856.70.

In 1939 we estimate our costs will be $641,984.10 or 62 cents a barrel.

H. H. Bronsdon

Now had we a condition in Alberta similar to the condition which existed in Saskatchewan in 1935 and we only had a load factor of 36% our run costs could quite easily jump in the year from 62 to 92 cents a barrel; that represents a difference of 30 cents and if all that difference were charged to gasoline it would affect the cost of gasoline by 1¼ cents per gallon.

Q MAJOR LIPSETT: Why should it all be charged to gasoline, Mr. Bronsdon?

A I just said "if", Mr. Commissioner.

Q There is no suggestion that it will, is there?

A No, that is just one way of applying it. I was just using gasoline as a yardstick to emphasize the difference.

Q Now take, if I may just interrupt, take your 1939 figure of 62 cents?

A Yes.

Q That would be approximately 3 cents per gallon if it was all charged to gasoline, would it not?

A About 3 cents a gallon?

Q Yes.

A Yes, that would be about right.

Q The gasoline, about what percentage, about what gallons of gasoline do you get or estimate you can get out of a barrel of crude?

A About 24 gallons.

Q And what happens to the other 11 gallons?

A That is various other products, Mr. Commissioner, distillate, refined oil, light domestic fuel oil, bunker "C" fuel oil, gas and loss.

Q Is there any wastage in the barrel of crude at all or do you get some products out of it all?

A There is a loss, Mr. Commissioner.

Q Can you give us some idea of about what that is, Mr. Bronsdon?

A Running 43 gravity Turner Valley crude we estimate the loss, well the gas part of that is loss but the gas produced is 5.73%. The actual loss ---

Q I am afraid I didn't follow that, Mr. Bronsdon?

A The amount of gas, that is the light ends which are burned in the boilers or go off through a flare ----

Q Oh, yes.

A Amount to 5.73 % and then over and above that there is an actual loss of 1.93%. I am referring to 43 gravity Turner Valley crude.

Q MR. FRAWLEY: What are the other products, will you give them, Mr. Bronsdon?

Q MR. HARVIE: What was that?

A 1.93%.

Q Just on that 5.73% which you use practically as fuel, you make some saving by using that as a fuel, I mean it is of some use in the refinery operations?

A Yes.

Q But it does not go out as any material which can be sold?

A No, that is it.

Q MAJOR LIPSETT: Is that the fuel you charge in here as refinery fuel which in 1937 you estimate at $112,000.00?

A It is included in that figure, Mr. Commissioner, there is also a liquid fuel burned at the refinery.

Q Does that come out of the barrel of crude also?

A It comes out of the barrel of crude, yes, it is called bunker "C" fuel.

Q Well how does that $112,000.00 then, how is that arrived at, Mr. Bronsdon?

A Well that is the quantity of bunker "C" fuel burned at the plant plus the gas which is converted mathematically and expressed in barrels or gallons taken at the value, at the value of bunker "C" fuel.

Q Well that $112,814,00, that should be credited should it not against your original cost of your crude?

A Well the $112,000.00 is credited in our accounts as sales, that is the usual refinery practice. They treat it as a sale.

Q MR. HARVIE: In other words, if it was not used by yourself in refinery you could sell it and get that much money for it?

A Yes, it has a value.

Q MAJOR LIPSETT: Where does that then appear amongst your sales, that should be credited in the marketing costs, should it not, or in the receipts for marketing?

A It appears, yes, it appears under our sales. When I come to the statement dealing with marketing department sales those values are included.

Q Yes?

A Mr. Frawley, you asked for the yields, gasoline yield is 69.42%. Kerosene 2.52%.

Q MR. FRAWLEY: Kerosene?

A Kerosene, yes, 2.52%. Distillate 5.48%. Light Fuel Oil .62%. Bunker Fuel Oil, 100% viscosity at

122 degrees Fahrenheit, 14.30%. Gas 5.73%; and loss 1.93%. Those percentages will add to 100. I might say that Dr. Brown visited our plant in Toronto last week or so and has checked over these figures with our Superintendent, Mr. Woolley, and was quite satisfied with them.

Q This statement 476 (e) of course and any others?

A Yes.

Q MAJOR LIPSETT: What price do you realize for this bunker fuel oil which you sell?

A We realize about 96 cents a barrel, Mr. Commissioner.

Q 96 cents a barrel?

A Yes. 2¾ cents per gallon or 96.2 cents per barrel.

Q Is that the product which you sell to the railway companies?

A Yes, in some cases it is sold to the railway companies. It is sold to small plants in Turner Valley for use in boilers but mostly to the railway companies.

Q THE CHAIRMAN: At what point, for what use is it sold to the railway companies?

A Used as a liquid fuel in the boilers of engines.

Q And at what price did you sell it?

A Well, I said we realized 96.2 cents per barrel. That is a composite figure.

Q MAJOR LIPSETT: On what basis, Mr. Bronsdon, was that price arrived at, any basis of peat value or anything?

A Well the fuel oil which is sold to the railways, of course, it is a competitive price. In converting the

value of the gas we use a competitive price. It is based on a value, based on a quotation which we received from the Canadian Western Natural Gas Light Heat and Power Company for refinery fuel.

Q MR. FRAWLEY: That is that cost item of 5.93%?

A Yes, that is how we value it.

Q MAJOR LIPSETT: That is the gas you used in the plant yourselves?

A Yes.

Q But what I am talking about is the bunker fuel oil that you sell to the railways?

A That is a competitive price.

Q What is the competition?

A Well, our refinery's fuel in 1938 was rather a small figure ----

Q Excuse me, Mr. Bronsdon, you say refinery fuel, are you talking about this bunker fuel oil?

A Bunker fuel.

Q MR. HARVIE: Do you use all of the bunker fuel which you manufacture or do you actually sell some?

A Well, in 1938 we had a very small amount for sale, I think only about 5000 barrels and we sold it to the small drilling outfits in Turner Valley. Now this year, we will have a larger quantity to sell and we will probably sell it to the railways. At the present time the railways are securing this fuel from the Imperial Oil Company but I suppose we will have to break into that market and sell at the competitive price.

Q And what is that in competition with, coal or fuel oil from the coast?

A I would think it was in competition with coal and fuel oil from the coast.

Q MAJOR LIPSETT: I was wondering, Mr. Bronsdon, if you could differentiate that somewhat, because on the face of it it does not look that this is bearing at all its fair share of manufacturing and that is why I asked you whether it had some sale value or what the comparison was or what the competition is and I would be glad if you would give us something about that, perhaps later on?

A I will make a note of that. Graph No. 476 (f) ----

Q MAJOR LIPSETT: Just before you pass on, Mr. Bronsdon, what is the precentage of depreciation based on, what figure do you allow for depreciation, what percentage?

A Those of the regular rates, Mr. Commissioner, as allowed by the Dominion Income Tax authorities.

Q Is that 10% on machinery, do you know?

A 10% on machinery and equipment. 2½% on buildings.

Q Does the Dominion only allow 2½% on buildings?

A 2½% on brick buildings.

Q MR. FRAWLEY: Has Mr. Cottle discussed that depreciation figure, have you had any conversations with Mr. Cottle on this statement yet, Mr. Bronsdon?

A No.

Q MAJOR LIPSETT: That depreciation then, Mr. Bronsdon, that is in addition to, I notice, $41,000.00 for repair material and $43,605.00 for labor repairs?

A Yes, that is in addition.

Q That is $85,000.00 approximately of those two figures and $127,000.00 then for depreciation in addition?

A Yes. It is not found to be too much be experience.

Q MR. FRAWLEY: I suppose it is possible to determine the life of this equipment, is it not?

A Well this, we estimate approximately ---

Q Couldn't you build up a depreciation, I do not know now, I am just wandering out into the unknown, is it not possible to arrive at some sort of functional depreciation for this equipment, try to find the age-life and work out the depreciation on that basis?

MR. HARVIE: The physical depreciation is on a less time.

Q MR. FRAWLEY: I know, but here you have a plant now that you are spending a lot of money on to keep up. I presume that is what the item is that Mr. Commissioner Lipsett is calling your attention to. You find that your cracking coils are showing some wear and tear owing to the heat and you pull out that part of the material and put in some new parts?

A Any major repair is capitalized. The repairs that are shown here under repairs labor and repairs material are the small, ordinary, usual repairs that are too small to capitalize.

Q Where is the money then for replacement?

A Replacement comes out of depreciation.

Q All out of depreciation?

A Yes.

Q So that now we can understand it then, as an example there

is a lot of wear and tear in a refinery plant, is there not?

A That is correct.

Q A great deal?

A A great deal.

Q And perhaps I might only take the cracking unit as an instance. I notice there is a lot of wear and tear in that?

A That is so.

Q You subject that equipment to excessive heat?

A High temperatures and high pressures.

Q Yes and if then, are we to understand that the results of that very extensive operation is reflected in the deprociation and not in the repairs item?

A That is correct.

Q If you found it necessary to pull out a certain section of your cracking coils and put in new parts you would call that a major change, would you?

A A major change.

Q And that would be in depreciation?

A That would be capitalized and put in our depreciation.

Q So much for that, but would it not be possible, if it were put to you, I mean to disregard the income tax rate of depreciation and endeavor to work out something based upon the experience over the years in the refinery operations, endeavor to find out what the age of that plant is and work out depreciation on that basis?

A Yes, we might do that, Mr. Frawley. In some cases we would find that 10% is not adequate.

Q Yes?

K. [illegible]

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A Some of these chambers, their useful life does not extend beyond two or three years and they have had to be replaced but what we have found over a period of time is that 10% on the average is about as close as can be figured.

Q Well as here ---

A If we thought it was higher than that we would have made representations before this to the Dominion authorities to increase that rate.

Q Yes. As I say I do not know where the depreciation would lead us at all but I was only thinking of it as being perhaps more accurate and that is all, perhaps a little more scientific because this might run you out sooner than, earlier than the experience of the life time and you say contra wise it might not?

A No, I hardly think that it more than takes care of proper functional depreciation.

Q MAJOR LIPSETT: And I suppose, whatever repair you keep it in, when the time comes when the whole thing has to be replaced either from old age or obsolescence, then you need the depreciation?

A That is correct.

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H. H. Bronsdon.

Q THE CHAIRMAN: All that has been discussed with Dr. Brown, I suppose, in Toronto?

A Yes.

MR. FRAWLEY: Yes.

MR. HARVIE: All right, will you continue?

A Graph marked Exhibit "476"F" accompanies and is intended to illustrate in graph form Exhibit "476-E". We have marked on this graph with red lines the average working limits, having regard to load factor, which ranges from 50 to 80%. It is very difficult to operate a refinery taking all the factors into consideration at a greater rate than 80% per year of its load factor.

Q MR. FRAWLEY: Does that mean you expect your costs then within these working limits of 50 to 80%, your costs will run from about 66 cents a barrel up to about 74 cents a barrel?

A That is correct, Mr. Frawley. From about 62 cents a barrel to 75 cents a barrel.

Q MR. HARVIE: For 1939 the estimate is that you will be working your refinery to practical capacity?

A Practical capacity, yes.

Q MR. COMMISSIONER LIPSETT: Why is the limit around 80%, Mr. Bronsdon?

A Because of shut-downs, Mr. Commissioner. Certain periods of the year when the plant must be shut down for inspection. Take, for instance, your cracking vessels, the steel, the thickness of the steel in these vessels must be calibrated very carefully to make sure that there is a sufficient factor of safety to take care of the pressure and the temperature. And the plant must be gone over and inspected

very carefully at regular intervals to assure that all these factors are being taken care of. That, together with the other conditions, such as market conditions, crop conditions, the question of storage capacity and so on, we have found from practical experience that a plant operating at 80% load factor is operating pretty much up to capacity.

Q I suppose if you ran it to full capacity all the time to take care of your peak seasons that would mean a very heavy item for storage?

A Yes, Sir, and then ultimately a very heavy item for repairs, because it would not be getting the proper care.

Q Do you mean these inspection periods?

A The inspection periods.

Q I assume that to be necessary?

A A refinery usually operates about 307 days of the year, out of the 365. The rest of the time is required for inspection and shut-down periods.

Q I see. Then have you at present storage capacity to take care of the full production for the 300 days?

A We have storage capacity to take care of 80%, not above that.

Q No?

MR. HARVIE: All right, Mr. Bronsdon.

A Referring further to Exhibit "476-A".

In the preparation of these estimates, ample allowances must be made for contingencies that are unforeseen in the operation of so complex a plant as a Refinery. The failure of any one part of the integral plant equipment and apparatus, including thousands of valves, instruments and controls, may materially affect the operations and increase

the cost in any given period.

Labor costs and conditions of employment brought on by ~~regulations more drastic~~ than those in operation, may materially affect the estimates of cost or increase same for future operations. Costs of material and other items beyond the control of the Company may be factors in increasing the cost of processing.

Engineering and research in improvement of plant is becoming of more importance in the highly refined plants with complicated chemical processes of to-day.

No allowance has been made in above estimates for the carrying of inventories over 80% load factor necessary to meet market demands.

In considering the problem faced by the petroleum industry in Canada, it is quite natural and indeed common to consider them to be similar to those existing in the United States. It is therefore important to show that this comparison leads to erroneous conclusions. The growth and development of the industry in Canada has been on entirely different lines from those followed in the States. At the beginning of this century the manufacture of petroleum products was largely controlled by a few major interests, There were a number of smaller concerns interested in the production of crude petroleum, and they were dependent upon the refining interests to absorb their production. This was responsible for a considerable instability of crude price, and encouraged a number of producing companies to engage in the refining of crude petroleum as a means of stabilizing the price of crude.

However, practically all of these companies looked on their refining and marketing operations purely as a means of stabilizing crude prices at a sufficiently high level to ensure an adequate return on their production operations. There are a number of major companies today that look on their refining and marketing operations from this point of view. Obviously, companies operating on this basis frequently engage in mutually destructive marketing practices, and the selling price of the product is no indication whatever of the processing and distributing costs.

In Canada the problem has always been primarily one of marketing and distribution, and the manufacture of finished products has been considered from the same point of view as it is by any other manufacturing industry. This point of view is generally expressed as involving the maintenance of an adequate return on the capital invested. In developing our case the British American Oil Company has more than sufficient facts to support its contention that its earnings are considerably below the percentage considered not only justifiable, but safe, for an industry engaged in operations involving such inherent hazards. Any attempt to set up costs in an arbitrary manner or to split up the Company's operation in an effort to justify reducing selling prices, has the single effect of reducing the profits on the capital invested, and will have the net result of embarrasing the industry financially.

We are unable to interpret any such actions as being other than contrary to the spirit of Finance Minister Dunning's recent statements drawing attention to the fact that Canada's security is dependent upon an adequate growth of

industry.

Quoting from Hon. C. A. Dunning's Budget Speech as reported on April 26th, "Many business and financial men have been using every recourse to improve processes, expand plant and equipmemt, or set up new industries. Their efforts have my sincere admiration, but they are far too few in number." From 1930 to date, our capital investment in refinery equipment has increased at the rate of approximately one million dollars per year, rising from two million in 1930 to approximately nine million at the present time.

Q MR. COMMISSIONER LIPSETT: Mr. Bronsdon, when you are dealing with that, is that increase of one million dollars a year, is that new capital raised from the public or is that capital put in out of profits?

A We raised, Mr. Commissioner, about 10 million dollars through the sale of debentures,and that has been the money that was used.

Q Since 1930?

A Since 1930.

During the early days of the development of the internal combustion engine, the petroleum industry was primarily interested in the manufacture of kerosene or illuminating oil, and the gasoline fractions that are so essential today in the operation of internal combustion engines were sometimes burned in open pits, or taken out to sea in barges and dumped. At that time the refiner was not concerned with the cost of manufacturing gasoline and with the problem of obtaining crudes from which the highest quality and yield of motor fuel could be produced, but was faced with the

problem of disposing of a product for which there was no market. The average man, when purchasing a car or a tractor, never stops to wonder whether there will be fuel and lubricants to operate his motor. He takes it for granted that a supply will be available during the service life of the equipment, and this is only one aspect of the reliance which the public has come to place in the petroleum industry. It is somewhat surprising that an industry involving such risks has met the demands made on it with such unfailing promptitude as to warrant the confidence which the public places in the industry.

From the published views of those who should be better informed, the industry has come to the realization that it, and anything associated with it, is regarded by the public as a source of unfailing revenue. Although there has been a steady increase in the benefits and values that the public receives for money spent on petroleum products, there seems to be a general unwillingness to concede that the modest profits distributed in the normal, healthy growth of well-managed companies is the result of diligent and painstaking administration which coordinates production, transportation, refining and marketing.

For a limited time the internal combustion engine could satisfactorily utilize as fuel the straight-run products derived from crude distillation. The essential part played by these engines during the war -- a part which called forth Lord Curzon's memorable statement that "the Allies floated to victory on a sea of oil" -- so increased the demand for motor fuel or gasoline boiling fractions

that it became necessary for the industry to develop cracking processes, many of the fundamental principles of which scientists had discovered and divulged, prior to 1914, in patents and scientific papers. For the purpose of clarity it may be well to explain briefly the meaning of the term "cracking" as it is used in the oil industry. The term is frequently employed to denote the breaking down of the hydrocarbons of higher molecular weight into bydrocarbons of lower molecular weight, a result obtained by subjecting the more complex hydrocarbons to a sufficiently high temperature for a sufficient length of time to cause substantial conversion. However, regardless of the chemistry involved, the term "cracking" is applied to the process of subjecting those portions of crude petroleum which are not suitable for use as motor fuel to such conditions of time and temperature as suffice to convert a substantial quantity of the original stock into gasoline boiling fractions. The importance of this process will be better appreciated when it is pointed out that somewhat more than half of the five hundred and twenty million barrels of motor fuel consumed in 1937 were produced by cracking. Dr. Howe estimates that had it been required in 1936 to produce all the motor fuel (of a quality required by the motors in use at that time) from straight crude distillation, three hundred million, six hundred and seven thousand barrels of crude would have been required. However, applying the principles of cracking to produce motor fuel the total crude required for that year was one hundred million, seven hundred and forty-two thousand barrels, Prior to 1914 several cracking processes had been

used to a limited extent to increase the ultimate yield of illuminating oil from the available crude petroleum. For this purpose of producing motor fuel many millions of dollars were invested by the industry in cracking equipment that became obsolete by 1925.

A I would like to refer you to the graph No. "476-G" that illustrates the trend in the production of motor fuel constituents. You will observe from this graph that in 1925 the percentage of cracked gasoline, included in gasoline, was relatively very much smaller than the percentage blended in say 1937.

(Page -11,360- follows.)

In 1925 the percentage of cracked gasoline was about 27%, then jumping up to a peak in 1929, the percentage of cracked gasoline had increased to approximately 33-1/3%. 1932 the percentage of gasoline had increased to 43%, and 1935 it had increased to 44%. 1937, 1938 and to date, it is now approximately 48% of the total.

We are submitting as Exhibit #476 H, statement of Refinery Production, Costs and Sales, in the Province of Alberta, for the year 1938.

Schedule 476 H is a Schedule showing details of the cost of commodities manufactured. This statement shows that we processed in the year, the following barrels of crude oil and crude naphtha:

	Barrels	Well Cost
Red Coulee Crude	20,954	.90
Cutbank	69,784	1.277

THE CHAIRMAN: Where does that 1.277 go?

A In there, Mr. Chairman.

Sunburst Crude	21,924	1.09

Q MR. FRAWLEY: That is delivered in Coutts. Cutbank is not, I take it, seeing there is no mention of it?

A These are all well costs.

Q But Sunburst you have price delivered in Coutts, you have a note there?

A Yes.

Q That applies only to Sunburst, otherwise I suppose you would have it noted?

A Yes.

MR. HARVIE: Mr. Bronsdon is reading from the brief and I think we are referring to Schedule 476 H.

MR. FRAWLEY: Any details like that we will have to watch.

MR. HARVIE: Yes.

A	Turner Valley Crude	674,184	1.3185
	Turner Valley Crude Naphtha	10,506	1.3701
	Turner Valley Naphtha	465	2.14
	Turner Valley Crude processed at the Bell	63,192	1.2097
	Total Barrels of Crude processed	861,010	

Statement 476 H, we then show the other costs that enter into the figure of the total cost laid down at the refinery which includes gathering, pipeage, excise and U. S. Exchange, and the total cost of the 861,010 barrels of crude oil laid down at the refinery was $1,249,773.00. Exhibit 476 H then summarizes the other costs and adjustments which are more fully explained in Exhibits 476 I, J, and K, and which include adjustment of stock between opening and closing inventories, a credit figure of $154,905.82. Materials and commodities used $519,015.76. Refinery costs and expenses $601,520.31, making a total cost of products produced and sold ex-Alberta refineries, $2,215,403.25. The statement then shows the products produced and sold and the products applicable to sales in Alberta. Products produced and sold were as follows: Gasoline, 24,191,600 gallons; refined oil, 827,214 gallons; distillate 2,131,329 gallons; fuel oil and bunker C, 3,342, 634 gallons. Total: 30,492,777 gallons. Applicable to sales in Alberta, gasoline, 18,660,703 gallons; refined oil 630,036 gallons; distillate, 1,258,143 gallons; fuel oil and bunker 2,878,309 gallons. Total: 23,427,991 gallons.

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Q MR. COMMISSIONER LIPSETT: Those were the 1938 figures then, Mr. Bronsdon?

A Yes, Sir.

Q Is this refinery costs you have in here, is that what you paid the Imperial?

A What we paid the Imperial is included. In a later statement I think we give you that in detail, Mr. Commissioner.

Q I see?

Q MR. HARVIE: It also includes the Bell and the Coutts costs?

A Yes.

Q MR. COMMISSIONER LIPSETT: It includes the cost of their own two refineries?

MR. HARVIE: Yes.

MR. COMMISSIONER LIPSETT: The cost of the crude purchased for the three refineries?

MR. HARVIE: Yes.

MR. COMMISSIONER LIPSETT: And the cost of processing at the Imperial refinery?

A That is right. Exhibit 476 I shows that we had on hand January 1, 1938, inventories to the value of $700,114.48. That is the total representing the inventories on hand at the refineries and at the marketing branches, supplied from those refineries. At the end of the year our inventories at the refineries and at the marketing branches amounted to $761,158.52. During the year we transferred to the Moose Jaw refinery unfinished stock for further processing from Coutts and the Bell refinery to the value of $93,861.78. The net inventory change, therefore, of $154,905.82 should be deducted from the cost of

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commodities manufactured in the Province of Alberta to arrive at the value of the products produced and shipped ex-Alberta refineries.

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Schedule No. 476J shows the particulars of materials and commodities used in Alberta refineries during the year 1938, which amounted in total to $519,015.76, which includes absorption gasoline, Ethyl fluid, chemicals used such as caustic soda litharge and ammonia and the Ethylizing cost also in connection with the Imperial processing operation.

Schedule No. 476 (K)----

Q MAJOR LIPSETT: The absorption gasoline there, Mr. Bronsdon, I see your purchases Ex Imperial Oil as compared with purchases Ex Turner Valley, was there any difference in those commodities or was what you bought from the Imperial Oil processed or something?

A It was all processed, Mr. Commissioner, but it was necessary for our own plant could not supply sufficient quantity for our requirements and that required us to purchase additional absorption gasoline from Imperial Oil.

Q There seems to be a very great discrepancy in price?

MR. HARVIE: The amount purchased rather than the price.

A Our own absorption gasoline was put in at cost, that is the cost of the gasoline.

Q I see, and the Imperial was put in----

A At the marketing price.

Q MR. FRAWLEY: You bought some from the Glacier Production Company in Montana because you ran short in Turner Valley?

A That was bought in Montana because it was closer to Coutts.

Q Oh, that was for the Coutts operation?

A Yes.

Q I see.

Q MAJOR LIPSETT: There seems to be a great variation in price though in what you had to buy from the Imperial and what you produced?

A I will work out a unit price for you, Mr. Commissioner. It is difficult to tell just by looking at a sum of money like that. I do not think the figures are very far apart when you divide them up.

Q In one case you got 110,000 barrels for $152,000 and in the other case less than 100,000 barrels, you paid $237,000?

A Yes. Of course you must remember that the purchases from the Imperial were Ex Calgary, whereas the purchases of our own products, they are priced Ex the Valley and then there is pipeage to be added and the losses and so on. If you like we will make up a statement and reconcile them on that figure but when you take all the factors into consideration there is not much variation.

Q I see. I would not trouble about it, Mr. Bronsdon, because the Imperial naturally would expect a profit on what they would sell?

A It is not as much as it would appear from those figures when you work it out in the calculations.

Schedule No. 476 (K) is a schedule of refinery costs for the year 1938 which shows the quantities of crude oil and Absorption Gasoline processed at the three refineries in 1938 and which amounts to the following:

	Barrels Processed	Cost Per Barrel
Coutts Refinery	122,926	82.63
Bell Refinery	75,115	34.15
Imperial Refinery	873,131	54.32
Total	1,071,172	56.15

Q MR. HARVIE: Are we to take it from the Bell Cost that it is a different material being manufactured or not?

A The Bell operation was just a skimming plant operation, it just produced the Straight Run Gasoline.

Q That is why the cost per barrel is much lower than the other costs?

A It is not a full comprehensive cost, no.

Q MAJOR LIPSETT: Then, Mr. Bronsdon, take the Imperial figure at 54.32 cents and does that include their profit, is it plus the profit which you had to pay them, is that the cost price to you?

A It includes an amount for processing amounting to $353,392.13.

Q Is that the Imperial's charge to you?

A Yes.

Q Including their profit?

A If they made any.

Q If they made any?

A Yes.

Q Well in the comparable figure of that in your Exhibit "476" (E) you give it 62 cents as your estimate for 1939?

A The comparable figure with the 56 cents is 62 cents.

Q Yes.

MR. HARVIE: 54.32 cents, just the Imperial alone.

Q MAJOR LIPSETT: You take the Imperial which refined for you last year?

A Yes; I hardly think though that you can take that figure alone, you see our requirements for 1939 will very closely approximate our total runs for 1938, you see, which were 1,071,172 barrels.

Q But it seems strange in some way, does it not, that your cost, the actual cost, estimated for 1939 on your total would be 62 cents when you are actually buying it at 54.32 cents the previous year from the Imperial, including whatever profit, as you say, if any, that they had?

A Well it would indicate, Mr. Commissioner, that the price which we paid was probably reasonable or fair.

Q I suppose that would be one alternative, Mr. Bronsdon, but might not another one be either your estimate for 1939 is too high or it is not good business for you to go to the cost of 62 cents for refining gasoline if you can get it done for 54?

A Well we were probably fortunate in getting it done for 54 cents but as I outline in my brief they suddenly cut us off and we were not able to buy at 54. Therefore----

Q THE CHAIRMAN: Nor at any price?

A At any price.

Q MAJOR LIPSETT: There was not sufficient capacity?

A No, therefore we were forced to make this move.

Q Yes. Certainly, a very desirable move from the point of view of the City of Calgary and the Province, Mr. Bronsdon, to bring in an additional industry but I was just wondering whether you had anything to say about the discrepancy in those figures?

A No, the figure of 54.32 cents is the outcome of an arrangement, exchange arrangement, which was made between the two companies when we, in which we processed for them at Coutts and they processed for us at Calgary and I think because of that mutual aspect of that arrangement we secured a very favourable rate from them.

Q And I suppose in both cases a very close figure was given?

A Yes.

Q MR. FRAWLEY: Mr. Bronsdon, you say that 54 cents was your cost to the Imperial for 1938 and you now estimate a cost to yourself of about 62 cents in 1939 and Commissioner Lipsett points out that is a very wide discrepancy. The Imperial, you say, found it impossible to continue to serve you?

A That is correct.

Q Would it be at all right to infer that if you had continued in the joint arrangement, the exchange arrangement, custom refining, that the cost might have been cut down to 54 cents a barrel?

A I doubt it, Mr. Frawley, that it could have been cut down that low.

Well there was not any complaint about it, it enabled the Imperial, so we have found from their Exhibit "280" and Exhibi "281", it enabled the Imperial to make a very fine operation for 1938 so far as keeping down costs are concerned and it would seem, perhaps I should not comment upon it whether it is fine or not, they told us it was a favourable thing, we heard that expression used by Mr. McGrath in speaking of the British American agreement, it was favourable to them and certainly it is favourable to you as compared to 62 cents. It might be a very impractical thing of course and something that you people would not consider as a business proposition but if you had continued and the Imperial had been able to look after you, you would have had a much better cost than your 62 cents?

A I doubt it very much.

MR. HARVIE: They were not able to look after us.

Q MR. FRAWley: How do you mean, you doubt it, if they had continued at 54 cents it would have been all right but you do not think they could have continued at 54 cents?

A I do not think it was contemplated to continue at that time.

Q You think even if they had had the capacity or you had cared to continue with them after their new addition, that the price would have gone up?

A We would probably have had to pay more.

Q MAJOR LIPSETT: I suppose on the present method you are taking care of increased business and developments in the Province for the future by means of your own refinery?

A Yes, and we are very proud of the new product we are producing too.

Q MR. HARVIE: Which maybe makes more than the few cents difference in manufacturing costs, to produce that type of product?

Q MAJOR LIPSETT: Is there anything to that particular point of view of cost, Mr. Bronsdon, is your present product more expensive to produce than if you were keeping the previous product obtained from the Imperial?

A I would not say so, Mr. Commissioner, no. We are taking advantage of course of the most up-to-date refinery methods and refinery technique in the industry is changing very rapidly so that we are getting the advantage of the most up-to- date knowledge and that reflects itself in the

products which we are producing.

Q But not actually increasing the cost of manufacturing although you are giving a better product?

A Our estimate is, as you can see, is 62 cents, our estimate is 62 cents as against the 56.15 which we had last year and we are getting a better product and better yield.

Q MR. FRAWLEY: I notice the 56 takes in Coutts at 82?

A Well it was actual cost.

Q MR. HARVIE: And you say you are getting a better yield?

A Oh yes.

Q In the long run it might be that by getting that better yield at 62 cents cost it is more economical than the 56 cents cost?

A Well I would say it is at least on a par with 1938.

Q MR. FRAWLEY: Mr. Bronsdon, why do you say that the Bell, it shows a cost of 54 cents, the Bell was not a complete operation?

A Well that was just a skimming operation, Mr. Frawley.

Q Yes, but apparently it turned out standard gasoline, I see you have some Ethyl cost there, so you turned out standard gasoline there?

A No, only the third grade gasoline.

Q Well what was the Ethyl fluid used for then, I do not understand that then, when you look at it again----

A It is a very small item, $64.

Q Then we can take it you were not making standard gasoline?

A That cost may have been incurred in connection with the products which have been remanining in the tanks for a

considerable time and had to be----

Q Re-ethylised or something?

A Yes.

Q That may be it. Of course it just throws some light on this then, that a skimming operation, although it does not go to the whole market, the cost is away down?

A The first operation in the plant. If the costs, on a big intregated plant, if the costs could be separated it is lower per barrel of course than the cracking costs.

Q The first operation, you mean the distillation?

A The distillation.

Q Before cracking?

A Yes.

Q Which is the Bell operation or the Plotkins or any skimming plant operation?

A Yes.

Q All right?

A On Exhibit "476" (L) ---

Q MR. HARVIE: You are reading at the top of page 8?

A The top of page 8, We summarize the refinery operations in Alberta as follows:

	Quantity	Amount	
Crude Oil Processed	861,010 bbls.	$1,249,773.00	
Other Materials		519,015.76	
Costs and Expenses		601,520.31	
Net changes - Refinery and Marketing Branch Inventories, a credit of		154,905.82	
Cost of Commodities Sold		$2,215,403.25	
Applicable to Province of Alberta			1,721,980.05
Add to this, cost of commodities from other Companies and other Divisions as detailed on Sheet 476 M - amounting to			327,319.00
Cost of Commodities sold in the Province of Alberta			$2,049,299.05

This Company, in presenting its Manufacturing and Marketing Costs in the Province of Alberta for the year 1938, is not attempting to make any arbitrary division of the costs in order to say that the manufacturing cost of gasoline is so much, or that it costs so much per gallon to market gasoline. We have felt it necessary, however, to explain our position a little more fully than just the short statement given above, with regard to the cost of each product, for the reason that we do keep a distribution of costs by Departments, but in figures which could not be used for the purposes of this Inquiry, as will be clear as we proceed.

We would, therefore, like at this time to discuss before the Commission, briefly, the problem of cost finding and the methods employed as it relates to the Oil Industry.

In considering in particular, first, Refining costs, we find that we are faced, not only with the problem of a multiplicity of products from crude oil, but also the problem of their manufacture, in combination along with detailed finishing processes peculiar to each class. This complicates the distribution of Manufacturing Costs to such an extent that even the arbitrary allocation of the costs has no significance as representing in any way, actual costs of the products manufactured. In fact, it can be said without fear of contradiction, that it is not possible to determine the cost of gasoline separately from the cost of all the products produced from a barrel of crude oil. In regard to our costs, we have, however, the following known facts on which to work:

1. We know the total cost of a barrel of crude laid down in the Plant prior to processing.
2. We know the total amount of money spent in processing this crude into finished products and the analysis of this cost into fixed charges, labor, material and operating expense.
3. We know the total cost of distributing these finished products to the ultimate consumer.
4. We know the total revenue derived from the sale of all products and from each particular type of finished products.

From these total expenditures and receipts, we are in a position to arrive at the net profit derived from engaging in the business and can express it as a percentage of capital employed. These are the only figures of cost with absolute significance. We wish to emphasize that the above are the only indisputable facts that can be compiled.

When it is desired to split expenditures up and express them in terms of costs of individual products, it is necessary to make some systematic but arbitrary allocation of expenses. It is obvious, therefore, that such allocation of costs would be arbitrary in their nature, which would depend upon the particular use which is made of the allocations themselves. When we refer to these as costs, we are using a familiar word with a new meaning.

In the oil industry, various arbitrary allocations are used, depending on the purpose

for which they are required, for example; in a refinery operation it has been found practical to assess all of the costs against one principal product. This method is used as a standard of efficiency in determining the efficiency of plant operation by throwing all of the operating costs say on the manufacture of gasoline and allocating no manufacturing costs to the by-products, for example, a refinery operating in Alberta on Alberta crude, would consider its principal product to be gasoline, and the production of gasoline would dictate the type of equipment and method of operation. A refinery in Pennsylvania would consider Lubricating Oils as its principal product and would regard gasoline as a by-product. In the former case, a system may be set up for arriving at the costs and may be used to reflect the efficiency of plant operation, by throwing all of the operating costs on the manufacture of gasoline and would allocate no manufacturing cost to the by-products. This has the advantage of providing an immediate measure of operating efficiency from month to month. This method has also been modified by crediting operating expense with the market values of by-products, but the outstanding disadvantage of this type of cost system, from the refiner's point of view is that the fluctuations in value of by-products changes the unit cost of motor fuel. This might erroneously be interpreted as a result of increased or decreased operating efficiency and the unit cost thus arrived at is useless from the standpoint of controlling refinery operation. It is obvious, also, that this method of allocation gives a measure of costs, cents per gallon, higher than other methods but inasmuch as any cost figures serve only the purpose of a

systematic comparison of operations, the numbers need have no financial significance in themselves.

On this same basis, in a Pennsylvania Refinery, they could quite justifiably consider that their gasoline cost them nothing, for the simple reason that the net profit made by engaging in this business depends on the efficiency with which the plant is operated to produce the main product for which it is designed. In other words, whether a Pennsylvania Refinery operates or shuts down is not determined by the selling price of gasoline, which may be affected by a gasoline war waging in its marketing vicinity, but is determined by the revenue derived from the Lubricating Oils manufactured, these being considered as the products from which the Company derives its principal income.

From this point of view, the Lubricating Oil bears all of the cost. Thus, from the point of view of the Refiner, there are a great variety of ways in which costs may be allocated and the figures which are obtained have no significance outside of the operations which they are intended to surpervise.

The only question of importance in setting up a cost system, is that the figures are systematically and consistently arrived at so that the operations for different seasons of the year and for processing different types of crudes, reflect the efficiency at which the Plant is being operated.

H. H. Bronsdon.

Quite a different system of cost accounting for transportation purposes is found to be expedient where two or more refineries belonging to the same company must subdivide a certain area for purposes of distribution. In allocating assignment areas to refineries operated by the same Company, it is necessary to set up some system for considering costs in order to define economical shipping distances for the different refineries. These costs are, of course, merely of relative significance, and have been assigned only for the purpose of enabling some systematic control to be exercised over certain transportation problems. When it is appreciated that the transportation charges per gallon vary from a fraction of a cent to several cents (in any given area), the importance of a cost system, and the influence of the system on profits and losses cannot be overestimated. One convenient way of allocating costs for this purpose has been found. It consists of considering all "white products" (gasoline, kerosene, distillate and domestic fuel) as one product bearing all refinery operating expenses, less fixed charges and less credit from residues. The costs so determined at the different refineries and terminals of the Company, fix the relative distributing areas for these centers. It will be obvious that a cost system adapted to supervise refinery efficiency would be valueless for determining assignment areas; while the cost system which has been found to be such a valuable guide in fixing assignment areas is useless for the refiner.

H. H. Bronsdon.

Sufficient illustrations have been given to show the diversity of methods which may be used to allocate costs and to show that the particular arbitrary selection from these methods which may be chosen is based entirely on the conditions under which the organization is operating. There is obviously no unique, precise and indisputable answer to the problem of allocating costs. Every manufacturer must use the system which he finds to be best adapted for purposes of controlling operation under the prevailing conditions. The whole object of the chosen system is to provide a means of insuring a sufficiently high standard of efficiency to maintain the particular margin of profit which is regarded as reasonable for the capital investment involved, and it will be clear that the control of this factor can be effected in a variety of ways, all of which, however, are directed towards the same object; namely, the maintenance of the margin of profit. Those who assert that any system of cost accounting applied to the petroleum industry, can yield figures of individual costs which have an absolute significance, are laboring not only under a misapprehension of the results of previous experience, but also are violating a simple, logical principle which, if stated simply and clearly, must be admitted by everyone in possession of reasoning faculties. The principle simply states that it is impossible to separate uniquely a given number, representing a combination of operations, into two or more different numbers which will add up to the given number, unless some extraneous or arbitrary assumption (that is to say an allocation of some kind) is made

to provide a basis for the splitting or "partition" as it is called, It is precisely in the infinite variety of ways in which this arbitrary allocation can be made that the diversity of equivalent methods for cost accounting is reflected. With this in mind, it will be appreciated that this Company has developed what it has found to be the most useful method of control of its operations as a whole. The only figures (we repeat) with any absolute significance are those leading to the over-all statement of profit or loss, and any subdivision or analysis of these figures simply provides a means of ensuring continued operation.

On Exhibit "476-N"----

MR. FRAWLEY: You skip "M", do you, for the moment?

MR. HARVIE: "M" was referred to as a supplementary sheet 2-----

MR. FRAWLEY: Oh, yes, on page 8, in the middle there.

MR. COMMISSIONER LIPSETT: "N" is 5 A.

MR. FRAWLEY: "M".

MR. HARVIE: "L" is sheet 5, Cost of Products Sold.

A Sheet 8 of the brief, Mr. Commissioner.

THE CHAIRMAN: I do not know exactly what you are talking about. 5. "N" has no number on it at all in my book.

MR. HARVIE: Some of the books originally typed did not have the numbers on.

THE CHAIRMAN: If you will refer to it just by the Exhibit Number then.and

by the Exhibit Number then.

THE CHAIRMAN: Do you say that Dr. Brown has been through these Exhibits, Mr. Bronsdon?

A No, my statement just had reference to the one statement.

Q The one we were talking about at that time?

A Yes.

Q He has not seen the Exhibit as a whole?

A No.

Q MR. FRAWLEY: I was just wondering about that. I intended to ask Mr. Bronsdon what he had seen, because I wanted to send him immediately all of these statements unless they could be sent to him from Toronto, which would be much shorter and quicker. I wanted to discuss that with Mr. Bronsdon and Mr. Harvie.

MR. HARVIE: That was "476-E" that he had had, and, of course, a great many other figures. But these figures now being presented were actually prepared in Calgary but to a large extent, Dr. Brown has maybe seen or been given in a general way a lot of the information, but not in this form at all.

THE CHAIRMAN: What I am coming at is we want to know that we have a critical examination of an independent expert. It may be, indeed, he will be quite in accord with everything here, but if there is to be a critical examination of it, and it is in any sense adverse then I wanted to know that your people had an opportunity of making answer, you see, because they may explain away what was adverse comment. So we want to know first as a starting point that not only had we got these but that he does and then that you have an opportunity of hearing anything he has to say about it.

MR. HARVIE: Yes, I understand that. Dr. Brown will be supplied with a copy of all this and as he gives his evidence we will be represented.

THE CHAIRMAN: Yes.

MR. HARVIE: Just for the purposes of the record, Mr. Commissioner Lipsett asked, I think, what "476-N" was . It is a breakdown of the figure of $327,319.00 that appears as the second last figure on Exhibit "476-L".

MR. COMMISSIONER LIPSETT: Thanks. It was the number that I had gotten wrong.

THE CHAIRMAN: You won't forget, Mr. Frawley, you have been so good as to say you will get these numbers right for me?

MR. FRAWLEY: Yes.

THE CHAIRMAN: And you and I will be talking about the same pages anyway.

MR. FRAWLEY: Yes, at least.

THE CHAIRMAN: All right, Mr. Bronsdon.

A Exhibit "476-N" is a statement of the quantities of the commodities produced and sold in the Province of Alberta. On this statement we commence with the refinery inventories on January 1, 1933. Total gallons of products, 4,633,300 gallons. Refinery Purchases, three items, light distillate, 3,290 gallons. Reading from Exhibit "476-N". It is dealing with the total of the column on the righthand side of the statement.

THE CHAIRMAN: Yes.

A The purchases of distillates, heavy distillate and reduced crude in total amount, 17,080 gallons. Production for the Year of All Products total 36,551,524 gallons. We transferred to other refineries outside of Alberta, 2,719,430

gallons. Our storage losses amounted to 187,961 gallons and the total figure, 38,294,513 gallons. From this we have deducted the inventory, quantity of all products on hand December 31,1938, totalling 8,550,592 gallons, leaving a balance of 29,743,921 gallons, which represents the quantity of products shipped from the refinery or burned as refinery fuel, ex Alberta refineries for the year 1938. We then add to this figure of 29,743,921 the net change during the year of inventories of finished products at the branches and agencies which amounted to 748,856 gallons, giving a total of 30,492,777 gallons, which represents the products sold in 1938, ex Alberta refineries. Of this figure of 30,492,777 gallons there was sold in Alberta 23,427,991 gallons. Then we added to that figure, quantities purchased from other companies or transferred to Alberta from other divisions, totalling 1,945,333 gallons, makirg a total of 25,373,324 gallons, which represents the sales in Alberta for the year 1938. We then come to Exhibit "476-O" This Exhibit gives us the particulars of the marketing department sales, which totalled a figure, 25,373,324 gallons. Our gasoline sales by tank waggon were 12,926,425 gallons. The amount is $2,342,931.00.

MR. FRAWLEY: May I interrupt. At the very bottom of the page we "We have submitted statement Exhibit No. blank, Marketing Costs, Province of Alberta." Now, you know about these?

A We have not come to that yet.

Q That is not "476-O"?

A That is "476-P".

Q "476-O". Have you got reference to that. Is that your note,

"Read Marketing Repartment records into the record."

A Yes, that is "476-O" we are now reading.

Q Fine.

A The average realizations gasoline by tank waggon was 18.13 cents per gallon. Deduct from this amount the freight paid, $419,355.29, amounting to 3.24 cents per gallon. Sales tax, $97,781.68, or .76 cents per gallon, leaving a net realization back to the refinery, before deducting marketing expenses, of $1,825,794.03, or 14.13 cents per gallon.

THE CHAIRMAN: Mr. Frawley, excuse me, Mr. Bronsdon, this subject of freight, which comes up again, I understand you to say that the Alberta producers and the Alberta Government have joined in an application for a Freight Rate Hearing in connection with the shipment of oil, is that correct?

MR. FRAWLEY: That is so, Mr. Chairman.

THE CHAIRMAN: Now, as anything done about freight may have a bearing on our report to His Honour, may I ask if the application is being proceeded with with dispatch. Is it likely that there will be a Hearing shortly? So that the freight situation may be analyzed by counsel ere we - I do not say before us, of course, but what results have been obtained, analyzed by counsel, before this report is made?

MR. FRAWLEY: I can tell you something about that. Application was made to the Board of Transport Commissioners to eliminate what appeared to be inequalities in the freight rates in the movement particularly of refined products. The Petroleum Association were concerned

also with the extension of the present so-called favourable rate on crude beyond its present limitation, namely, Moose Jaw and Regina. My application also was general to bring before the attention of the Transport Board the existing rate on both crude and refined products with a view of their general review of the elimination of the inequalities that might be there.

THE CHAIRMAN: Does it embrace the making of rates for the transportation of crude oil or oil products comparable with those in eastern Canada?

MR. FRAWLEY: The language of the application was very informal. It simply was for the purpose of bringing to the attention of the Transport Board, you might say, the whole matter of refined products rates and crude rates in Western Canada. I think the Board would so regard it as a general request to look into the rates.

THE CHAIRMAN: From what we have heard thus far from the witnesses before us, it would appear that freight is an important factor in costs and since we are very much concerned with costs it seems that our task would be more completely performed if we had a ruling by the body charged with determining what the freight rate shall be ere we come to report. I mention it now with the tbought of hastening on that application if it lies within-----

MR. FRAWLEY: I would like to answer your question precisely. The reduction in freight rates is very important. It will do lots of things for us. We know that the tank waggon, Mr. Halverson told us the tank waggon through Alberta is Calgary plus freight, so that if this rate does come down it is going to affect the tank waggon price all over Alberta, excepting Calgary, perhaps. As to

crude, we know that the more favourable the freight rate the further the crude goes out and the further extended will be the economic line. Shortly after the application was lodged we were requested to delay pressing for a public hearing. I was told by my agent in Ottawa, informally, that the public hearing might conceivably come on about the end of June, certainly sometime during the summer because the Board was thinking at that time of making a Western trip and they would be glad to hear what we had to say in Calgary. We were then requested not to press to go on with the public hearing because certain negotiations were pending between the railways companies and the major oil companies and certainly if it would do away with the necessity for a public hearing I was glad to make delay. I have been kept advised from time to time by my agents at Ottawa that these negotiations were proceeding and on Friday last a dispatch came from Ottawa that the railway companies had made application for confirmation of an agreement which they had made with the Imperial Oil Company and the McColl-Frontenac under the "Agreed Charges Act," as it may loosely be called. I am going to ask my agents if these are the proposals which were pending and which we were asked to await before pressing on for a public hearing, and then I will have to come to some conclusion whether or not the public hearing should proceed nevertheless, whether that fairly meets the situation or not. The whole matter is very much alive, as far as I am concerned.

THE CHAIRMAN: Does that which has been agreed on cover the rates in Western Canada?

MR. FRAWLEY: The rates in Western Canada. As a matter of fact, you may be interested to know Mr. Cottle

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worked something out and he said it would make a difference in the tank waggon price in Edmonton of 4/10 of a cent. I have not much question about it but that Mr. Nolan's client will have these savings in freight rates reflected on the tank waggon. They have always done it before and I imagine that will be done. That shows the importance of it to the Commission and we will keep you very well informed on the whole thing.

(Page 11,386 follows.)

H. H. Bronsdon

MAJOR LIPSETT: Is that limited to a certain distance from Calgary.

MR. FRAWLEY: Yes, it seems to be limited to 270 miles from Calgary. Of course, that would take in the whole Province of Alberta very easily, 70 miles north of Edmonton, it would not carry it into the Peace River country.

MAJOR LIPSETT: Is there any help in getting it towards Winnipeg?

MR. FRAWLEY: No, it is only from Calgary. It is only from Calgary at the moment. That is why, I must not be saying too much, at the moment the despatch would seem to indicate that it is confined to Calgary. Now, if that is so, it does not affect that of which you heard last winter, namely the apparent discrimination against Moose Jaw and Regina refineries in favor of the movement from Sarnia through Fort William. It would not appear to touch that at all, so that is why I must find out a great deal more about it but I will be glad to keep you informed about it all.

MAJOR LIPSETT: So far as you know it does no affect Moose Jaw or Regina refineries at all?

MR. FRAWLEY: No, certainly so far as Mr. Bishop's despatch is concerned, it just said "out of Calgary". These charges were out of Calgary and on refined products of course but out of Calgary, not out of Moose Jaw refinery and of course, you will observe, I observe with interest that the British American Oil Company was not included at all so it would not affect their movement out of Regina to Winnipeg apparently or

out of Calgary for that matter because apparently in that agreed charge you must agree to give all of your traffic to the railway companies, I understand, or you do not come within the Statute.

THE CHAIRMAN: Could that be put in for one company, that kind of agreement?

MR. FRAWLEY: Yes, that is just it, sir, and apparently only the British American Oil Company and the McColl Frontenac ----

MR. HARVIE: You mean the Imperial.

MR. FRAWLEY: The Imperial and the McColl Frontenac have made an agreement so far and then it must go to the Transport Board for approval.

THE CHAIRMAN: All right, Mr. Bronsdon, sorry to interrupt you but you too are interested in freight matters?

A Yes.

MAJOR LIPSETT: Is that confined to refined products or does it include crude?

MR. FRAWLEY: No, certainly the despatch only talks about refined products.

MR. HARVIE: I think, Mr. Commissioner, there are general negotiations going on by the oil companies. Mr. Bronsdon may have something to say on it and the negotiations have not terminated by any means I understand.

MR. FRAWLEY: No, and as Mr. Harvie says it is on account of these negotiations of which I have been told that I was requested to delay the hearing, on account of they may not be, they may not have led up to an agreement

at all as yet.

WITNESS: I might say, speaking on behalf of our Company, that we are now negotiating with the railways with regard to reduced rates on refined products and that, subject to minor adjustments, we expect to enter into an agreement with them something similar, along the lines of the Imperial and the McColl Frontenac. They would be reduced rates out of Moose Jaw and Calgary.

Q MR. HARVIE: Moose Jaw and Calgary?

A Yes.

TANK CAR or JOBBER	6,260,306 Gals.	639,963.87	10.22
Deductions Freight		16,882.23	.27
Sales Tax		47,356.05	.76
	Total Deduction	64,238.28	1.03
Net Realization		575,725.59	9.19
TOTAL GASOLENE	19,186,731 Gals.	2,982,894.87	15.55
Deductions Freight		436,237.52	2.27
Sales Tax		145,137.73	.76
	Total Deduction	581,375.25	3.03
Net Realization		2,401,519.62	12.52
REFINED OIL			
TANK WAGON	482,385 Gals.	104,355.46	21.63

MR. FRAWLEY: That is what you call coal oil, illuminating oil?

A Kerosene.

H. H. Bronsdon

REFINED OIL	QUANTITY	AMOUNT	PER GAL
TANK WAGON	482,385 Gals.	104,355.46	21.63
Deductions			
Freight		20,056.68	4.16
Sales Tax		4,052.03	.84
	Total Deduction	24,108.71	5.00
Net Realization		80,246.75	16.63
TANK CAR or JOBBER	147,651 Gals.	18,743.30	12.69
Deductions			
Freight		593.38	.40
Sales Tax		1,240.27	.84
	Total Deduction	1,833.65	1.24
Net Realization		16,909.65	11.45
TOTAL REFINED OIL	630,036 Gals.	123,098.76	19.54
Deductions			
Freight		20,650.06	3.28
Sales Tax		5,292.30	.84
	Total Deduction	25,942.36	4.12
Net Realization		97,156.40	15.42
DISTILLATE			
TANK WAGON	822,588 Gals.	122,591.39	14.90
Deductions			
Freight		29,405.44	3.57
Sales Tax		5,264.56	.64
	Total Deduction	34,670.00	4.21
Net Realization		87,921.39	10.69

DISTILLATE	QUANTITY	AMOUNT	PER GAL.
TANK CAR or JOBBER	445,672 Gals.	45,552.57	10.22
Deductions Freight		10.58	-
Sales Tax		2,852.30	.64
	Total Deduction	2,862.88	.64
Net Realization		42,689.69	9.58
TOTAL DISTILLATE	1,268,260 Gals.	168,143.96	13.25
Deductions Freight		29,416.02	2.32
Sales Tax		8,116.86	.64
	Total Deduction	37,532.88	2.96
Net Realization		130,611.08	10.29
FUEL OIL and BUNKER "C"			
BY TANK WAGON	98,742 Gals.	8,471.40	8.58
Deductions Sales Tax		266.60	.27
Net Realization		8,204.80	8.31
BY TANK CAR & BURNINGS	2,779.567 Gals.	96,436.18	3.47
Deductions Freight		3,923.17	.14
Sales Tax		7,455.51	.27
	Total Deduction	11,378.68	.41
Net Realization		85,057.50	3.06

Q MR. FRAWLEY: What does that mean "Tank Car & Burnings"?

A "Burnings" refers to tank fuel burned at the refinery

and this is where the credit appears for the charge which we show under the refining costs.

Q It is a sale, as it were, by the marketing department to the refinery?

A That is correct.

	QUANTITY	AMOUNT	PER GAL.
TOTAL FUEL OIL & BUNKER "C"	2,878,309 Gals.	104,907.58	3.64
Deductions			
Freight		3,923.17	.14
Sales Tax		7,722.11	.27
	Total Deduction	11,645.28	.41
Net Realization		93,262.30	3.23

Q MAJOR LIPSETT: How do you reconcile that figure, Mr. Bronsdon, with the figure in 476 (e), for this refinery fuel, it is $112,114.00?

A Well, sir, in "476" (e) that is an estimate for 1939 and the price was, in that estimate was 96.3 cents per barrel. Now the fuel oil burnings included in these figures for 1938 included fuel oil burnings at Coutts, fuel oil burnings at the I. O. in Calgary and fuel oil burnings at the Bell and the average figure works out at 1.0347 cents per barrel.

Q MR. FRAWLEY: On "476" (e) can we write in there "refinery fuel varies as shown", can we write in at what figure per barrel, 96 something?

A 96.2 cents is the figure used in the 1939 estimate but the average figure used in 1938 was 1.03 cents, 1.0347 cents to be exact.

Q That figure is not here. We would have to work that figure out, would we?

A It is included there, Mr. Frawley, with the other sales.

Q MR. HARVIE: It is part of the $96,436.12 realized?

A Yes, that is correct.

Q MR. FRAWLEY: I realize what you are doing, you are lumping all of your 1938 refinery operations, you had an operation at Coutts, now discontinued, you had one at the Bell, that is now largely discontinued, altogether perhaps?

A Yes.

Q Then you had the Calgary operation where you paid a certain fee to the Imperial?

A Yes.

Q And by the way, apropos of that, you show Imperial and Calgary on one of these statements, just what does that mean?

A Which statement do you refer to?

Q It is "Imperial and Calgary" on 476 (a)?

A Well, the "and" is a typographical error, it is "Imperial Calgary".

Q That is just "Imperial Calgary"?

A Yes.

Q Now, you are putting altogether all of your refinery operations in 1938 and then are you going to show them contrasted with your marketing operations and your marketing costs or work them into your total picture, I suppose you are, of course?

A Oh, yes, we sum up the refining costs and then include them in arriving at our net results for 1938.

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Q Yes that is true, yes, you show then in your submission your net results in 1938, which shows on the manufacturing side some Coutts, some Bell and the Calgary processing agreement and then on the marketing side your marketing, now the Coutts products were marketed only in a certain area of the province?

A Just in the economic area surrounding Coutts.

Q Largely what we have been calling "the southern fringe of the province"?

A That is right.

Q The Bell operation was chiefly a limited one, limited to -----

A Calgary and the surrounding territory.

Q And then would the British American, would the Imperial, what the Imperial made for you, you sold all over the Province?

A That is correct.

Q However, you are going to show the whole business I suppose?

Q MAJOR LIPSETT: Mr. Bronsdon, from "476" (a), you show the total fuel burned in 1938 as $75,895.00?

A That is correct, yes.

Q Now what is the basis of increasing that to $112,814.00 in your estimates for 1939?

A In the new refinery, Mr. Commissioner, we will use more fuel oil, I think that will be necessary and if you like I will make up a statement showing the quantity. I have not the quantity included in the value on Exhibit "476" (e). I just do not have the quantity at my fingertips.

Q I would be glad if you would explain that.

A Yes.

Q Does that 1938 figure in "476" (o), include any sales to the railway companies of this fuel oil and bunker oil?

A Beg Pardon?

Q There are figures in "476" (o) representing fuel oil and bunker "C", do those include any sales to the railway companies?

A No, sir, there are not sales in those figures to the railway companies.

Q MR. FRAWLEY: Sold in tank car quantities, you said to some stationary plants in Turner Valley?

A Yes.

Q Do they take it by tank car, you call it tank car?

A No, I say tank truck.

Q Where would it be shown, in these tank wagon sales, in the 98,000 gallons or rather in the 2,000,000?

A Well it is shown under the caption of tank car although we are treating large truck deliveries as tank car, permanent tank car deliveries.

Q MAJOR LIPSETT: And there were in fact no tank car deliveries at all in 1938, Mr. Bronsdon?

A Well there may have been, Mr. Commissioner; 93,000 gallons went to the Great West Distributors and 54,000 gallons shipped into the Edmonton division, that was probably by tank car.

Q That would be tank car?

A Yes.

Q So what is the explanation then, Mr. Bronsdon, of the very large discrepancy between the tank car, 8.58, and the tank wagon of 3.47, there is a 50% reduction?

A Well, in the tank wagon, the quantity in the main shown as sales under tank wagon, there is included domestic fuel oil. On our records we do not separate, we have no separation between domestic fuel and the bunker "C", on our tank wagon deliveries.

Q MR. FRAWLEY: You mean breaking down the 98,000 gallons, could you do that to show where that went?

A Most of that is sold at 8 or 9 cents a gallon, 9 cents a gallon. That was shipped apparently all over the province in small quantities. You see there are 270 gallons shown at Acadia Valley, 45 gallons at Carstairs, 270 gallons at Craigmyle and so on, all over the territory.

Q I would not want you to bother with a breakdown of that then, it is used, is it, it is not of course the Diesel stuff at all, that is under another heading altogether?

A Yes.

Q Light fuel oil?

A Yes.

Q But I had an idea that it was only used in railway locomotives except ----

A Well there are two grades of fuel oil included under this caption.

Q You have fuel oil and bunker "C"?

A There is fuel oil in there running from, in gravities, ranging from 12 to 38 gravity and as there is not very much of it sold, why, we have not felt it worth our, worth the effort to keep it separate.

Q Bunker "C" is a marine expression, is it not?

A Yes.

Q And none of it sold really to that trade here?

A As bunker "C", not strictly speaking, no.

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MR. COMMISSIONER LIPSETT: Just what I had noticed was the variation in the prices, in the tank wagon price and the tank car price?

A Yes, quite right, Mr. Commissioner. The answer is that most of that 98,000 is light fuel oil. I can give you a split-up of that figure if you like. At least, I will endeavor to.

MR. FRAWLEY: It is Diesel, then. Diesel is really in here?

A It is light fuel oil, domestic fuel.

Q There are a lot of Diesel stationary engines in small town lighting plants certainly in Northern Alberta and that is where it would go, I suppose. That is Diesel fuel, then. There is no other class for it, so it must be there?

A I am not sure of that, Mr. Frawley, but I will get a breakdown for you.

Q All right?

Q MR. COMMISSIONER LIPSETT: Just something that will explain the difference in that figure of 98,000 gallons and the 2,779,000 gallons that were sold at 3.47?

A Yes. We will give you a statement, Mr. Commissioner, explaining that.

ROAD OIL and ASPHALT	865,329 Gals	93,274.21	10.78
Deductions			
Freight		28,018.73	3.24
Sales Tax		1,537.59	.18
		29,576.32	3.42
Net Realization		63,697.89	7.36

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	QUANTITY	AMOUNT	PER GAL.
LUBRICATING OILS and MISC. PRODUCTS	544,659 Gals	440,598.59	80.89
Deductions Freight		90,647.11	16.64
Net Realization		349,951.48	64.25
TOTAL ALL PRODUCTS			
TANK WAGON	18,418,254 Gals	3,197,009.37	17.36
Deductions Freight		391,406.42	3.21
Sales Tax		108,922.46	.66
	Total Deductions	700,328.88	3.87
Net Realization		2,496,680.49	13.49
TANK CAR or JOBBER	6,955,070 Gals	715,908.60	10.29
Deductions Freight		17,486.19	.25
Sales Tax		58,904.13	.66
	Total Deductions	76,390.32	.91
Net Realization		639,518.28	9.38
TOTAL - ALL SALES	25,373,324	3,912,917.97	15.42
Deductions Freight		608,892.61	2.40
Sales Tax		167,826.59	.66
	Total Deductions	776,719.20	3.06
Net Realization		3,136,198.77	12.36

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We submit Statement Exhibit "476" Marketing Costs, Province of Alberta, Year 1938. It may not be necessary for me to read this Statement, Mr. Chairman, as it was duplicated in Mr. Miller's evidence. It is repeated here in order to give continuity to the figures.

THE CHAIRMAN: All right. Now Major Lipsett suggests you put in the final figure there, Mr. Bronsden?

A There will be no trouble for me to read it out.

MR. COMMISSIONER LIPSETT: Just the final figure, Marketing Costs, Province of Alberta?

A Marketing Costs, Province of Alberta, Year 1938, the total Marketing Expense was $610,808.37. Those are the direct expenses directly incurred in the province. There must be added to those figures further figures as explained in Exhibit "476 Q". This covers a schedule of the general administration expenses applicable to the Marketing Department, Province of Alberta, 1938.

Advertising	$ 24,932.19
General Engineering Expense, Toronto	4,645.16
Traffic Department, Toronto, Expense	4,656.20
Purchasing Department, Toronto Expense	2,406.34
Legal Expense	1,753.79
Executive, Sales and Accounting Departments, Toronto	9,005.93
Bank and Debenture Interest	12,187.32
	59,586.93

To which should be added the total on Schedule 476 P to give the grand total of the marketing costs which amount to $670,395.30. Then there is also added Dominion and

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Provincial income tax $89,659.85, making a total on Schedule 476 Q of $149,246.78.

I then refer to Exhibit "476 R". This Exhibit is a summary of the manufacturing and marketing operations in the Province of Alberta.

Gallons sold		25,373,324 gals.
Gross Sales		$3,912,917.97
Less:		
Freight	608,892.61	
Sales Tax	167,826.59	
Marketing Costs	670,395.30	
Costs of Crude & Mfg.	2,049,299.05	
Income Tax	89,659.85	3,586,073.40
Net profit available for contingencies, obsolescence, sinking fund provisions and dividends		$ 326,844.57

MR. FRAWLEY: Would you mind me interurpting you for a moment? Going back to Exhibit "P" and "Q". You obviously add those together some place, I think. You did add them together in your evidence, but I do not see where you carried these two totals on?

A Schedule 476 P is the total marketing expenses, direct expenses incurred in the Province of Alberta, and totals $610,808.37. To get the total marketing costs, we have

to add to that the sum of $59,586.93 as shown on Schedule 476 Q. Those are marketing costs applicable to the Province of Alberta, but not direct costs. They are costs that arise at the Head Office in Toronto.

Q Yes?

A You add those two figures together and it gives a total marketing cost of $670,395.30.

Q And then that is the figure that you have in 476 R?

A That is right.

Q MR. COMMISSIONER LIPSETT: Just to keep that Summary complete. What is the manufacturing figure taken from? What is the number of that, Mr. Bronsdon, do you happen to have it?

A 476 L.

Q Oh, yes.

In arriving at the above calculated return on investment, arbitrary division of overheads, etc., have been made which are much more favourable in amount than that obtainable under an independent operation in Alberta.

It is our opinion if we had a separate company entirely, a separate incorporation in Alberta, that we would not get the advantage of the pooled over-head and administration costs, and therefore the net return would be less than the present operation.

MR. FRAWLEY: In a word, you think that the figures on 476 Q would be higher?

A Yes, that is right.

Q That advertising, just before we pass it, there was

some mention made of it the other day. It was a little surprise to some of us to find your advertising figure was so much. That only may be that we have not been following closely enough your advertising programme, but a lot of it was for radio. Have you a consistent daily radio programme throughout the Province of Alberta?

A Yes, we broadcast the Jimmy Allen programme from Calgary daily, five days a week, and also through the Edmonton station.

Q Is that an original programme, or a transcription?

A It is a transcription.

Q One obviously contrasts it with the Texas advertising costs. They have, as you know, 15, I do not know how many minutes a day it is, perhaps 30 minutes and perhaps more, of a News Broadcast every day and three times per day I think. And we were noticing the other day it did not add up to as much as yours. It is merely a circumstance. You may be paying more than they are. That is where the money goes. It is the Jimmy Allen programme for children that you broadcast once a day from Calgary and once a day from Edmonton?

A Yes. Our radio expense is the Jimmy Allen programme

Return on Capital Employed:

Total Investment in the Province of Alberta applicable to sales in Alberta, being the net depreciated value of fixed assets, plus working capital	$2,911,757.61
Percentage earnings to capital employed, as determined by method described	11.22%

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Q MR. FRAWLEY: Just what do you mean by the method described, already described, I suppose it means?

A The next paragraph will explain that, Mr. Frawley.

Q All right?

The rate of return on capital employed for the year 1938 shows a more favourable result than prior years due to the benefits we obtained from the Imperial Processing Contract without the employment of the additional capital required to own a refinery. This picture will change in 1939 when $1,617,000.00 must be added to Capital employed to cover the cost of our new refinery at Calgary. If the same net result is obtained in 1939 as was obtained in 1938, our return on investment will be 7.22%. It is not to be expected, however, that we will reach the 1938 figure for the reason that selling prices are lower in 1939 than 1938 but relatively the cost of crude oil has not decreased as much. A statement is herewith submitted adjusting the trading results of 1938 to conditions as they exist now, showing that on today's prices and costs the net profit in 1938 on the same volume of business would have been $265,980.97, instead of $326,844.57, a reduction of $60,863.60, or, expressed in percent of capital employed, a reduction from 11.22% to 9.13%.

A I would like to refer now to Exhibit "476 S" and "T".

MR. HARVIE: Just before you leave that, would there be a similar reduction of how much if you included the new capital investment? What would the return be?

MR. FRAWLEY: He has done that up above.

MR. HARVIE: No, he has not. You say you reduce your rate of return from 11.22 to 9.13 by adding new capital investment?

MR. COMMISSIONER LIPSETT: Would not that be due to the volume of business?

MR. FRAWLEY: The 11.22 to 9.13 is giving effect to the reduction in prices?

A I will have to figure that out.

MR. HARVIE: Yes. All right. I thought you might have it there.

MR. COMMISSIONER LIPSETT: Is your point, Mr. Harvie, that on that amended basis the new figure will be $265,980.00, and that would have to take care of the additional captial investment as well?

MR. HARVIE: Well, it is just he made the statement that this picture will change in 1938 when $1,617,000.00 must be added to the capital employed to cover the cost of our new refinery at Calgary. If the same result is obtained in 1939 that was obtained in 1938, our return on investment will be 7.22¢.

MR. COMMISSIONER LIPSETT: Yes, that is on the net result of the $326,844.00.

A The figure would be below 7.22.

MR. HARVIE: Yes, that is what I mean, it will be again a reduction on that.

MR. COMMISSIONER LIPSETT: That is what I was asking Mr. Bronsden about.

MR. FRAWLEY: You can work out something supplementary to that?

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A 476 S and T. 476 T, I would like to refer to that first as it covers the details that are summarized on 476 S. On this Statement we have taken the 1938 sales in the Province. We have priced them at the selling prices in effect on May 1, 1939, that was the date on which this Statement was made. By deducting the freight back to Calgary and deducting Sales Tax giving the realization at Calgary by products on the 1938 sales as at prices in effect May 1st, 1939. On Exhibit "476 S" we have made any adjustments that would be necessary in our costs showing that the net results, after adjusting the cost of crude and selling prices to those in effect as at May 1, 1939, that our net profit available for sinking fund provisions and contingencies and dividends would have been $265,980.97, in place of the amount actually shown for the year of $326,844.57.

Q MR. COMMISSIONER LIPSETT: Is that caused by the reduction that came into effect last year, about the middle of the year, Mr. Bronsdon?

A Yes, on June 2nd, 1938, there were reductions in the tank wagon prices over the province varying from I think 4/10ths of a cent to 1½¢ a gallon. We have given effect to those reductions in this figuration.

Q In other words, your 1938 figures in 476T were based on the higher price for half the year, and the lower price for half the year?

A That is correct.

Q Now, when you are translating that into 1939, you are adopting the lower price for the whole year of 1939, the lower price basis?

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A This is still 1938 but we are just adjusting the 1938 figures to show what they would have been had conditions in 1938.....

THE CHAIRMAN: Had been what they were after the reduction?

A Had been what they were after the reduction, yes.

MR. COMMISSIONER LIPSETT: Yes.

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In our costs, we have included a depreciation charge using the straight line method of depreciation on the original cost. The average rate used in these figures is 5.03%. In arriving at the capital employed in the Province of Alberta, we have taken the total original cost and determined the amount of depreciation reserve to be deducted, by using the average rate of 5.03% for each year the asset has been in use. On this basis we have determined that the capital employed in the Province, applicable to sales in the Province, was $2,911,757.61 and that the percentage of earnings to such capital employed in the year 1938 was 11.22%.

While we have submitted our figures of percentage of earnings to such capital employed, on the basis of net depreciated value, as we understand the Commission wish it presented in this manner, we strongly feel that stating the earnings in this way does not actually reflect the true position. In figuring earnings on the depreciated value, the earnings show a very low rate of return when the equipment is new and a much higher rate of return after the equipment has been in use for a number of years. We would suggest that a more satisfactory basis would be to use the sinking fund principal by establishing a rate that would amortize the plant over its actual life.

Q THE CHAIRMAN: You say the Commission required something to be done there. We are here to learn and if you have any better way of doing it than anybody else has we want to hear it?

A Probably we should have said there "the Commission Accountant requested it".

The method of using book value of capital employed, based upon a depreciated value of plant, is open to many serious objections. No company endeavours to set up its records on a strict and ideal basis of depreciation accounting, many of the renewals to plant being made out of maintenance expense, and replacements are often made from surplus account. Further, plant may be written off long before the completion of its useful life, or rates of depreciation may not reflect the true life due to difficulties in ascertaining same. This is further emphasized when revenues from operations are not sufficient to meet all costs in any one location.

Depreciation is something that is consumed in the operation of Plant. In the event that it should temporarily have been used for extension or improvement of Plant, when required for renewal or replacement of plant, it must be provided by accumulated charges to operations based on plant investment, or new capital must be provided for this purpose. Public Utilities operated on a sound basis, usually provide this reserve from operation based on a Sinking Fund basis of return on funds in the reserve and maintain their fixed capital upon 100% basis for return on investment until same has been written off by amortization through the provision of a Sinking Fund or from surplus as abandoned through depreciation. In the latter case, the business terminates or that part of plant does not function further.

In connection with our net earnings of $326,844.57, we would point out, from this net income available from our operations in Alberta, reserves for the following risks should be provided, or sufficient remain

in surplus to take care of same.

1. A provision for sinking fund, reserve and amortization requirements on our debenture issue, which amounts to $722,000.00 each year for the whole of Canada.

Q MAJOR LIPSETT: How long does that take to amortize the investment, Mr. Bronsdon?

A How long does it take?

Q Yes, what is the amount of the debenture issue?

A There is presently outstanding about 6½ million dollars, 8 or 9 years would amortize it at that rate.

2. Contingency Reserve to take care of extraordinary losses occasioned by Force Majeure not previously accounted for by insurance, such as explosions, tornadoes, and other losses beyond the control of the Company.

In some cases, Corporations set up funds or reserves to take care of this loss, and also insurance, out of previous surplus, and it is not shown in operating expense. Ordinary insurance, in the company's case, has been charged to operating expense and contingencies must be provided for out of return on investment.

3. Obsolescence - the writing off of capital before the completion of functional depreciation such as brought about by changes in crude supply, advance in the art of manufacture of gasoline, improved specifications of products, etc.

4. Business risks or stabilization fund. Provision for the fluctuation of the volume of business due to variation in trade brought about by depression

prosperity, crop failures and credit loss.

5. Return on capital, dividends to shareholders.

The rate of return on investments or capital employed has varied very widely due to the volume of markets in Western Provinces, as shown on the attached table.

The attached table refers to Schedule "476" (U). This is a statement, capital employed, net earnings and return on investment in the Province of Alberta, the British American Oil Company, Limited, for a nine year period, 1929 to 1937 inclusive. It shows that our average percent of return during that period is 3.90%. The figures also reflect a little of the depression period; 1932 we suffered a loss in our operations in that year of $40,389.28; 1933 there was a loss of $59,634.25. The average for the nine year period 3.90%.

Q MR. FRAWLEY: You have not 1938 in here, have you, just so that we would have 1938, would it be a great inconvenience to make a supplementary statement giving 1938?

A We can add 1938 for you.

We have specifically given a few of the important hazards as enumerated above, applying to Western Canada, particularly, first, the uncertainty of the supply of crude oil; second, the possible effect on the consumers of increased costs of raw material; third, this industry is subject in a high degree to the hazards of obsolescence of its refineries and other plants by reason of changing sources resulting from new discoveries.

Further, it is impossible to reflect the cost of doing business over a period of the future

by any one year's marketing costs due to the many unknown factors entering into conditions surrounding the petroleum industry. This has been fully illustrated in the past by the available markets through the prosperity and depression years, the cost of crude, the improvement in roads, competition, obsolescence of facilities and many other factors too well known to be mentioned, common to industry, and the results of 1938 should be adjusted for the average cost of ten-year period.

The Company, in its operations in Alberta and the Western Provinces, has experienced very definitely many of the above risks in carrying on its business in the distribution of Petroleum Products. Functional obsolescence has been very evident and during the four years ending December, 1938, the Company, in the West, has written off $250,000.00 of plant cost due to functional obsolescence. Moose Jaw was originally designed to process Mid-continent crude. The bringing in of Cut Bank required a change in plant to utilize that crude and again, on Turner Valley being available, excessive changes had to be made which are not all completed to this day. In the case of Coutts Refinery, the change to obtaining our Petroleum Products from Turner Valley crude and the construction of the new refinery at Calgary, will necessitate the writing off of over $250,000.00 investment at this refinery and approximately $100,000.00 in pipe lines constructed to transport crude to Coutts. There is a further possibility that owing to conservation, our Absorption Plant and pipe lines at Turner Valley may have to be written off, originally costing over $350,000.00.

The graph submitted by our General Sales Manager on volume of business for 1928 to 1938, has further illustrated the progress and changes required in the distribution and marketing of Petroleum Products in Western Canada. These changes are brought about by changing conditions beyond the control of the industry. No roads in the beginning required one form of distribution and as roads and other transportation facilities have been made available, other methods had to be adopted, requiring the scrapping of plant and new schemes evolved to meet the new conditions of distribution. The new scheme of distribution now adopted by the Company will mean an expenditure of $1,250,000.00 to replace the old, with no compensating increase in revenue in the three Western Provinces but will provide a materially increased service to our customers.

The risks involved and the experience of the Company due to obsolescence is shown above and below is given a further detailed account of the substantial changes in capital brought about by obsolescence.

Obsolescence has been the cause of a substantial increase in the capital investment in refinery equipment during the past twenty years, and there are a number of factors that have influenced this that can be briefly stated as follows:

1. Obsolescence caused from changes in specifications of motor fuel.
2. Obsolescence resulting from changes in characteristics of crude refined or source of supply.
3. Obsolescence caused from improvements in equipment, usually inspired by changing specifications of products, that require a new type of equipment in

order to meet specifications economically.

4. Obsolescence caused by the depletion of production in a crude field or by the discovering of a new producing area; making it uneconomical to operate at its present location.

In order to appreciate the extent to which the specifications for motor fuel for internal combustion engines have changed as a result of more exacting and narrower limits of tolerance permissible for fuel, the application of this engine as applied to aviation is considered. The first flight of the Wright Brothers took place on the 14th day of December, 1903. It lasted twelve seconds and the plane flew a distance of one hundred and twenty feet. The plane was powered by an engine which the Wright Brothers had to build in their bicycle shop, no builder of internal conbustion engines at that time being interested in the construction of an engine that would develop eight horse power and weigh less than two hundred pounds, that is to say, an engine weighing twenty-five pounds per horse power. Thirty-five years after the flight of this first plane, airplane engines are constructed to develop twenty-five hundred horse power and weigh approximately twenty-five hundred pounds, or one pound per horse power. Also automobile engines are constructed of 205 pounds to develop 150 horse power. This has meant not only solving problems of compression pressures, compression ratios, strength and weight of materials, and engine speeds, but has required the development of dependable lubricants that can be relied upon in spite of extreme climatic conditions to which the equipment may be exposed, and the development

of a motor fuel that can be relied upon to liberate continuously the energy necessary under the prevailing conditions.

Just how the automobile engine manufacturers entered into the competition for better performamce in engines is well illustrated in Chart No. 6, Exhibit "476" (V) if you will refer to that Exhibit, Mr. Commissioner, you will notice several very striking accomplishments in the trend of American passenger car engine designs. You will notice that the Horse Power per cubic inch has increased about 78% from 1925 to 1938; in other words they are getting 78% more power out of the engine today than they were in 1925, notwithstanding the fact that the displacement curve, which is the lower curve at the bottom, only shows a change in engine size of about 8%.

Using the year 1925 as a reference year, it will be noted that the average maximum brake horse power of American automobile engines in 1938 was increased 93% over the year 1925, with only an increase of 8% in volumetric displacement.

Now the brake, the maximum brake horse power has reference to the actual power which is delivered to the wheels of the car and that has increased 93% since 1925, of which 78% of that increase is accounted for by the increased power produced in the engine itself, the rest of the increase is accounted for due to improvements in the carburetor, stream-lining of the carburetor, etc.

The horse power development per cubic inch displacement was increased 78%. The average compression ratio was increased 44%. The increase in brake mean effective pressure of 32% represented improvements as

well in valves, valve timing, volumetric efficiency, and other improvements in engine characteristics.

These improvements in automobile engines were made possible only by the complete cooperation of the petroleum refining industry, with the automobile manufacturing industry. As the compression ratio of an automobile engine is raised, the tendency toward fuel "knocking" greatly increases. If violent fuel "knocking" occurs, the engine loses power and overheats. Thus, With inferior motor fuel, increased power and fuel economy through increased compression ratio is not possible.

When it is appreciated that the general improvements in design and construction of internal combustion engines for all uses have been concurrent with the improvements made in the design of this engine for its specific use in aircraft, it is easy to understand why refinery equipment capable of producing motor fuel of a certain quality should go out of date so rapidly. Practically every step in the improvement of motor fuel has been attended by increased costs, both in capital investment and in operation. By 1928 the demand for increased quality of gasoline had reached a point which made it necessary to instal millions of dollars worth of equipment for the purpose of reforming the straight run gasoline, recovered from crude by normal distillation processes, by subjecting this type of gasoline to a cracking operation. By utilizing these methods the refinery could recover from 75 to 80% of high quality gasoline, while but a few years before this the original charging stock itself would have been considered gasoline of high enough quality. As late as 1923 there

were marketed large quantities of gasoline with final boiling point as high as 450°F. Today it is uncommon for any major companies to market gasoline with final boiling point higher than 400°F., and frequently the final boiling point is as low as 350°F. This has meant a reduction of from 15 to 25% in the yield of gasoline boiling fractions obtainable by straight distillation of the crude and has meant that the refinery has been required to instal equipment of additional cracking capacity for the production of those gasoline boiling ranges as are required today by the market. This trend is very clearly illustrated in Graph No. 1.

That Graph No. 1, Exhibit "476" (W), this Graph shows----

Q MR. FRAWLEY: It is Graph No. 1, erroneously referred to as Graph No. 7----

A It is Exhibit "476" (W). This Graph shows and this refers to standard grade gasoline, what we call the "Q" brand or No. 2 house brand, 1927 the average requirements for cars 50 octane, gradually going up, 1932 it is up to 64-65 octane; 1937 it reached 70 octane; 1938 it is around 73 octane and the tendency is upwards. Referring back again for a moment to Chart 476 (V)----

Q MAJOR LIPSETT: 71 octane, is it not, instead of 73?

A Pardon me, 71. 73 for 1939, it will be up to 73 for 1939 rather, it will be up to 73.

Referring again to Chart 476 (V) and dealing with compression pressures, the automobile manufacturers tell us that their next step is to force the fuel into the cylinder under pressure. It is commonly sometimes referred to as super-charging. Now as this is

done that is again going to increase the compression ratio in the cylinders and will require a slightly higher octane gasoline so that is right on the threshhold, it is right before us today, the possibility of the octane of gasoline continuing on up to 80 and probably a higher octane. They are also now manufacturing aeroplane engines which require an octane of 125.

Q MR. FRAWLEY: I think you are going to find some confusion here, Mr. Bronsdon, when you say that Graph No. 1 which you said should be marked as 476 (W), I think that is Graph No.1, and that was missing, you will remember, except it is 476 (G), that is right I think, 476 (g) that must be it I think, what do you think?

Q Yes, that is right. I think I was a little ahead of myself there.

MR. FRAWLEY: We will just correct that then, Graph No. 1, on page 17, in the second last paragraph is 476 (G)?

A That is correct.

MAJOR LIPSETT: Is that at the bottom of the page?

MR. FRAWLEY: No, in the second last paragraph, towards the end of the second last paragraph, Graph No. 1 it should be 476 (G).

This trend is very clearly illustrated in Graph No. 1, where a comparison is made between the total consumption of motor fuels and the method of production. The low pressure vapor-phase cracking equipment installed for reforming purposes between 1928 and 1931 became obsolete, and by 1935-36 was abandoned for that purpose.

At the time of installation the industry was aware that this would probably be the case, since development of new alloys, centrifugal pumps, and instruments would make it possible to perform these operations at elevated pressures as well as high temperatures, and with an increased utilization of chemical treatment.

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Just how the petroleum refiners have co-operated with the automobile manufacturers is well illustrated in Exhibit "476-W", showing the trend in octane numbers of standard No. 2 house brand gasolines as marketed in the United States. We know from past surveys that the average octane numbers of Canadian No. 2 house brand gasolines will run somewhat higher in octane than the United States average.

Q THE CHAIRMAN: What is the significance of those words "house brand"?

A The significance of the words?

Q "House brand"?

A Standard brand. That is the standard brand, or the brand of the house.

Q And corresponds with what, now. What is that brand known as in your organization?

A Nevr-Nox is our house brand or standard brand.

Q And 3 Star Imperial?

A 3 Star Imperial would be an equivalent gasoline.

MR. HARVIE: And Fire Chief, Texas?

THE CHAIRMAN: Yes.

Q MR. FRAWLEY: Then when you get into the jobber brand, that is something else altogether. You people have not any jobber brand, have you. Perhaps while we are talking about these brands it might be useful. You have two jobbers, the Bell Refining, who sell under the name of Bell, and the Great West Distributors, who sell the same gasoline we are talking about, standard gasoline, under the name of Red Head, that is right, is it not?

A Yes.

Q And if anybody wanted to purchase, any consumer wanted to purchase a tank car of gasoline from you for resale of your

Nevr-Nox gasoline, you would put another name on it, wouldn't you. What would that name be?

A Our house brand gasoline, of course, is Nevr-Nox gasoline, and that has reference to an Ethylised product. If we were selling a jobber and he wished to market under some other brand name we would sell him Stellarine Ethyl or Stellarine. We have those two brands registered for use by jobbers who purchase their gasoline from us.

Q So that Stellarine is a house brand too?

A Well, no, I think there is where the distinction comes in. Nevr-Nox is the house brand and Stellarine is the-----

Q MR. HARVIE: The standard grade that you sell

A The standard grade marketed by jobbers.

Q MR. FRAWLEY: The same gasoline but it is not the house brand gasoline.

MR. COMMISSIONER LIPSETT: Nevr-Nox and Stellarine would be the same quality?

A Yes, the same quality, the same product. And Peerless Ethyl and Stellarine Ethyl would be the same product.

Q Just a different name for a jobber who wanted to----

A Market his own gasoline.

Q Under a different name?

A Yes. Unfortunately, at the time of writing, the No. 2 Canadian gasolines have not been averaged, but work is being directed for the preparation of a Canadian survey average. One of the reasons for the higher Canadian average is the fact that "Q" grade leaded gasolines were pioneered in Canada some two years before their introduction in the United States. No. 1 Grade Motor Fuels average about seven octane numbers above the No. 2 Motor Fuels.

H. H. Bronsdon.

Q MR. FRAWLEY: If this would be of interest to the Commission, and I am sure it would, you have apparently set out the average octane numbers in standard gasoline throughout Canada?

A Yes.

Q Can that be supplied?

A I think so. Yes, we will make a note of it and see you are furnished with a copy of that report.

Q Do you make a lower octane gasoline, just speaking now of standard gasoline, in Alberta, where it is higher than you do in Toronto and in the Maritimes where it is considerably lower?

A You have reference now to altitude, have you?

Q Yes. I think Dr. Brown told us, whether on the stand----

A Well, practically there is very little difference, practically. Theoretically, there is a difference because of the altitude but it is not generally recognized by refiners. Our standard brand gasoline marketed in New Brunswick is practically the same octane as the gasoline marketed in Calgary.

Q Do you say you do not recognize the refining theory that you have not got to have as high octane?

A I would not say we do not recognize it but we do not cut it as fine as that.

Q Dr. Brown expressed it this way, that by virtue of the difference in the altitude between Vancouver and Calgary that it made a difference of about 7 octane numbers, but he also said that that was compensated for, either in whole or in part, by the fact that in this country we have hills to climb?

A Yes.

H. H. Bronsdon.

Q But if we were on the flat, if it was perfectly flat out here and we were as high as we are from Vancouver that we could get along with a gasoline with 7 octane numbers less. Now, does your company subscribe to that?

A I think the reference that you made to Dr. Brown's explaining the difference due to the hilly country is probably the answer as to why the refiner in approaching the problem from a practical point of view has not found it necessary to change the octane number of the gasoline marketed in Alberta to a very great extent from that marketed in Eastern Canada.

Q All right.

A It has long been known that the power of a given volumetric displacement motor could be increased by raising the volumetric compression ratios. The raising of the volumetric compression ratio also reduced the amount of fuel required to accomplish a given amount of work. In Chart Exhibit "476-X" is graphically illustrated the effect of compression ratio on power and fuel consumption at constant engine speed. It is easy to see that anti-knock quality of motor fuel permitting, the automobile manufacturer could obtain his flash car performance by raising the volumetric compression ratio of the automobile engine.

If you will refer to Exhibit "476-X" you will note the effect of compression ratio on power and fuel consumption at constant speed. An engine having a ratio of 4 to 1, the line on the graph is shown starting with a ratio of 4 to 1 and then it shows the increase in power and the decrease in fuel consumption as we proceed to

higher compression ratios. For instance, a car having a 7.5, or we will take 7 to 1 ratio, that is probably more practical, the Hudson car has a 7 to 1 ratio, the Hudson car would get about 33% increase in power and decrease in fuel consumption as against the older model cars having say 4 or 4½ compression ratio. While there has been a decrease in the fuel consumption of your cars, most of the increased power has been taken up in efficiency of get-away and speed and so on. We will reach a point, I think soon, where there will probably be a more marked decrease in fuel consumption as they improve engines and automobiles.

Q MR. FRAWLEY: And sell less gasoline?

A Yes, the tendency will be to use less gasoline. Concurrent with improvements in equipment and methods necessitated by changing specifications of finished products, there has been a constant and rather rapid improvement in the art of petroleum refining, from the early batch systems employed to the adoption of flow systems. The result of these changes has been largely inspired by the desire to increase operating efficiency and to increase plant capacity for a given capital investment. This development has been characterized by the application of instruments and methods of automatically controlling the operations. The refining equipment in use twenty years ago utilized only the simplest types of indicating temperature and pressure equipment, representing practically no capital investment; while today fifteen percent of the capital invested in a modern plant may be required for instruments. This is a result of combining the various steps of the refining operation in what has

become commonly termed a combination unit, for the more efficient utilization of the heat required to effect the various steps of the operation. Obviously, as technological and metallurgical developments are made to improve the type of heat transfer equipment and automatic control instruments, various parts of units may become obsolete prior to the abandonment of the operation of the unit as a whole. For example, in our Toronto refinery, expensive instruments and heat exchange equipment installed between 1925 and 1930 have been largely replaced or abandoned for the purpose for which they were installed, and replaced by more efficient, modern designs. To a greater or lesser degree, this type of obsolescence has necessitated replacing of furnaces, towers, and pumping equipment, while the process or method of processing may still be fundamentally sound.

The most serious problem of an economic nature before the refining industry is the development of means through which total supply of crude oil may be processed and converted into gasoline, lubricants and fuels in such proportions as are required by the demand situation and to avoid the accumulation of over-heavy stocks in one department or another.

The answer to the ever-present problem, for it has been with the industry three or four decades, lies in the widespread application of thermal cracking catalysis and synthesis. These methods are now new things, perhaps too little understood in their importance by some, but nevertheless the trend has started toward improved processes, with important commercial, large-scale achievement along with catalytic and thermal polymerization.

cyclization, hydrogenation and dehydrogenation -- and with the many tools now at hand the refiner is enabled to produce that "tailor-made gasoline."

Thus there are now five of the larger oil companies actively interested in cracking, and including companies and subsidiaries the total is 11 large concerns. The total refinery capacity of the five major concerns and their subsidiaries which are now actively interested in cracking is 1,400,000 barrels daily. This is roughly 30% of the domestic rated refining capacity which has become influenced by the advent of this relatively new technical achievement.

Q MR. FRAWLEY: This is Canada you are speaking of?

A No, this is the United States.

Q The whole.

A THE REFINER has estimated that the domestic industry would, in 1939, spend somewhere between $50,000,000. and $75,000,000. for catalytic processes, an estimate which in all likelihood may prove conservative.

The petroleum refiner has been able to keep abreast of gasoline octane number requirements due to increased use of the cracking process,(and the brief refers again to Exhibit "476-G") and the ever increasing octane number of cracked gasolines produced by more efficient methods of cracking. Of very great assistance in increasing the octane number of standard No. 1 and No. 2 motor fuels has been the discovery and use of the chemical tetra-ethyl lead. Tetra-ethyl lead is very effective in raising the octane number of low or intermediate octane number gasolines. Its effectiveness is increased when gasolines

are carefully treated to remove certain sulphur compounds that inhibit the good qualities of tetra-ethyl lead fluid. Tetra-ethyl lead has a very greatly reduced susceptibility to improving high octane gasolines produced by thermal gas polymerization or more severe cracking processes.

Q MR. FRAWLEY: I suppose if your supply of ethyl fluid was interrupted for any cause at all, you could still go on making Nevr-Nox gasoline. It would cost you more, that is all. Is that the situation?

A No, I would say that might present a very serious problem to the oil industry. They would probably have to find some other chemical element to add to the gasoline that would give the same effect as the tetra-ethyl lead.

Q On account of keeping their costs about the same. There is no question you can make 71 or 72 octane gasoline in your plant here in Calgary without the use of ethyl fluid?

A Not with the present equipment, no.

Q Not with the present equipment?

A No, that requires reforming equipment and it is a very expensive operation.

Q The fact is you are actually dependent right now on maintaining your place in the market for gasoline, standard gasoline, on the ethyl contract?

A Yes, it would look that way.

Q There are companies in the United States, the Sun Oil is a great instance that manufactures standard gasoline without any Ethyl contract or without the addition of any chemical, that is so, is it not?

A Yes. Of course, that does not indicate, how long they will be able to continue to do that. Conditions are

changing very rapidly.

Q It is interesting to know, you say you cannot in your present plant, you cannot make standard gasoline without the use of tetra-ethyl lead?

A Not without going to considerable expense to change the equipment, to a reforming operation and so far our knowledge of the reforming equipment, it is more expensive to reform the gasoline than it is to ethylise.

Q That has precisely been my impression, that it is much cheaper. But I did not understand and I am now learning for the first time that you cannot in your present plant, that you cannot do the work without capital investment and further processing equipment before you can make the gasoline you are now making, without the use of tetra-ethyl lead?

A Yes, that is correct. Of course, it might not take us very long, probably a month or six weeks, to change the equipment, but then----

Q But you have just finished, that is a very fine plant of yours down there, is it not?

A Yes.

Q You think it is and I am sure everybody else does. It is a modern and up-to-date plant in every respect and you cannot make 71 or 72 or whatever the make of octane is for standard gasoline. It is about 71 or 72 , is it not?

A 73½ now.

Q You certainly cannot make that gasoline you are now telling us without making further capital additions to that plant?

A Yes, that is correct. It would require a complete change of the set-up. It is not contemplated at the present time

that we would make an octane gasoline of 72 or over by any other method than ethylising.

Q It is your obvious deduction then that the ordinary small sized Alberta refinery, independent refinery, seeking to get into the refining and marketing of all kinds of gasoline, simply could not think of going it without an Ethyl contract?

A I suppose that is the proper conclusion.

Q MR. COMMISSIONER LIPSETT: Is that your Nevr-Nox which is 73½ now?

A Yes, Mr. Commissioner.

Q Can you by any method make Ethyl, regular Ethyl gas with your present plant, even by reforming the equipment, as you mentioned?

A Well, in theory, yes, it could be done, in theory. But the quantity that you would obtain of such high octane would be relatively so small that it is not commercially feasible to consider making such high octane out of natural gasoline.

Q So the industry for the highest grade gasoline is really dependent on the Ethyl corporation?

A Oh, yes. Manufacturers of cars recognize that too. They realized years ago that they must find some chemical to add to the gasoline before they could go ahead making cars with these high compression ratios.

Q Up to 73½ octane or thereabouts, you could get it by reforming your plant?

A Yes. Natural gasoline can now be made to 72 octane.

Q MR. FRAWLEY: Natural gas?

A I refer to natural to distinguish it from having tetra-ethyl lead added.

Q It would be cracked gasoline?

A Yes.

Q And let us add to that, you know of no refiner in Canada that is making standard gasoline - well, perhaps you do. Do you know of any refiner in Canada that is making standard gasoline of 71 or 2 or 3 octane, without the use of tetra-ethyl lead?

A No, I do not.

Q Does the Shell Company in Montreal, do they not turn out - they do in the United States, they make standard gasoline without ethyl fluid?

A As I understand it, the Shell standard brand is a leaded product.

Q MR. COMMISSIONER LIPSETT: Does that mean there would be no ethyl needed at all in---- that you could get to that 72 octane without any lead at all, without any tetra-ethyl lead?

THE CHAIRMAN: Not with the plant as presently constructed.

MR. COMMISSIONER LIPSETT: No, but in the reformed plant?

A 72 octane out of natural gasoline is a commercial possibility. But it does not commence to keep up with the progress that is being made in the automobile. So that it requires ethyl lead from the refiner's point of view to keep up with the requirements of the modern motor car.

Regarding obsolescence as affected by the changes in the source of crude supply, this very frequently results in the complete abandonment of the existing method of chemical treatment of refining products, thus necessitating an

entirely different type of treatment as well as type of plant. For example, our Moose Jaw refinery as originally constructed was designed for the treatment of Oklahoma City crude. By the time the plant was put in operation Cutbank crude was available, and the difference in the characteristics of the crude necessitated the complete abandonment of a treating plant that saw very little service and represented a substantial capital investment, and a different type of treating plant and chemical system had to be installed. To a greater or less extent these changes in crude characteristics affect the existing distillation or cracking equipment and frequently necessitate substantial alterations of equipment in order to economically process the new crude.

THE CHAIRMAN: We won't finish your examination anyway, so we will stop there.

(At this stage the Hearing was adjourned until 9:00 A. M. Tuesday, 18th July, 1939.)

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J. J. FRAWLEY

The Province of Alberta

IN THE MATTER OF THE PUBLIC INQUIRIES ACT

—and—

IN THE MATTER OF a Commission, dated the 12th day of October, A.D. 1938, to inquire into matters connected with Petroleum and Petroleum Products

Commissioners:

The Honourable MR. JUSTICE McGILLIVRAY
(*Chairman*)

—and—

L. R. LIPSETT, ESQ.

Session:

CALGARY, Alberta July 18th, 1939

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Statement produced by the witness Meltabarger for the Texas Company of Canada showing the cost of operating credit cards.....11,535

HERBERT HARTLEY BRONSDON,

having been recalled:

WITNESS: Continuing the brief, page 19, the last paragraph,

Obsolescence of refinery equipment caused by the depletion of a producing area or by the discovery of a new production field, requiring the transfer of refining capacity from one area to another, has been amply illustrated by the Company's operation in Alberta. This economic development made it necessary for us to discontinue operating our Coutts refinery, which was dismantled, and a new refinery at Calgary was constructed. Our investment in our Turner Valley Absorption Plant has likewise been jeopardized by this development. The functioning of this economic principle has been responsible for the abandonment and dismantling of hundreds of refineries in the United States that have been built in producing areas during periods of flush production and low crude prices, and has contributed to a considerable extent to the distressing economic condition of the refining business in the States at the present time.

In concluding our remarks on the question of obsolescence, we have tried to make clear that this term is not used in the industry to indicate that the equipment has gone out of style and is no longer fashionable, but is a result of very real economic factors which the industry must be prepared to meet. In order to reduce the hazard of capital invested in this industry it is necessary that an adequate reserve be maintained to meet these contingencies. It is impossible to predict when these contingencies will arise, as they may happen with the

abruptness with which a new producing field is discovered, or with the abruptness of development and discovery of improved methods of refining that make present equipment uneconomical to operate.

Cost of Research It has been part of this discussion to show that the process of petroleum refinining has been subjected to such rapid developments and changes that even the most modern refinery was made obsolete in five years or less time. The continual necessity for gasoline increase has changed the industry from one of distillation methods to one combining cracking, polymerization, and chemical manufacturing. Such changes within the industry have necessitated the continual increase of capital investment and the setting aside of adequate capital reserves to protect the investing public against losses that would result from the company's inability to meet the ever-changing situation.

Developments and inventions do not come by happy accident in the complicated phases of modern petroleum refining. The cost of modern progress is represented by the cost of research. The American Petroleum Institute's statistical department estimated the petroleum refining industry's 1937 expenditure for research, at $12,000,000.00 in the United States alone. While the 1938 tabulation of research costs is not yet available, there is every evidence of a large increase over the year 1937. Several new research laboratories were built during 1938, and numerous new research projects started. To meet the present trend toward chemical manufacturing methods, research costs will be doubled or tripled during the coming

five years. Conditions of national emergency would multiply these costs tremendously.

In the storage and transportation of crude oil and finished products there is involved unknown elements of risk and loss from evaporation and fire, problems which have demanded the attention and study of a sizeable corps of engineers working to protect life and property and to minimize losses which could easily amount to tremendous sums with careless and inefficient handling.

It has been shown from the charts showing volume of business for 1928 to 1938, made available, that the oil industry in Alberta is particularly hazardous through the widely fluctuating markets due to the character of the major business in Western Canada. A large part of our revenue is obtained from the agricultural community and it can be shown from records, which makes it abundandly clear, that in times of declining business the purchasing power of agriculture suffers more adversely than that of the industrial population. Further, the distribution of the population over a wide area and the absence of large cities, tends to increase the price of distribution. There is also the problem of credit losses which, during the early years of this decade, were very high.

The following may be summed up:

1. The uncertainties in the operation of the industry and the proven high rate of obsolescence and the possibilities of further technical changes.
2. The limited market in Alberta in particular.
3. Fluctuating volume in Alberta as compared with other parts of the country.

Having in mind the foregoing it is submitted that the risks involved justify a high rate of return as compared with industry as a whole and it is considered that a return of 15% on capital employed in the oil industry, as a minimum, is reasonable.

Q MR. HARVIE: Mr. Bronsdon, you have some comments to make on these subjects which have been discussed?

A Yes I have, and several statements to file.

Q You might just go ahead, what is the first one, you might just read it to the Commission?

THE CHAIRMAN: Now you are offering-----

MR. HARVIE: We are offering a statement showing the break-down of average sales realization per gallon and per barrel in the Province of Alberta, showing percentage of controllable and non-controllable items for the year 1938 with results.

(DOCUMENT PRODUCED HERE MARKED AS EXHIBIT "478")

See p 11452

THE CHAIRMAN: Now this Exhibit is something provided at Mr. Frawley's request, is it?

MR. HARVIE: No, it is just an extension and explanation of our own brief, sir.

WITNESS: In this statement we endeavour to give you a concise picture of the costs and values involved in the refining and marketing of petroleum products in the Province of Alberta. The statement is headed "Break-down of Average Sales Realization per gallon and per barrel in the Province of Alberta, showing percentage of controllable and non-controllable items. Year 1938 results." It seems to me that the average man on the street when he looks at the

posted service station price on gasoline and mentally multiplies that figure by 35 to arrive at the value per barrel, cannot understand why that amounts to probably seven or eight dollars and then when he compares it with the sale price or the cost of crude at $1.20 per barrel he probably feels that there are a number of figures or amounts in between those two figures that he cannot understand so in this statement we are endeavouring to explain just what becomes of the six or seven dollars a barrel that is realized from the sale of gasoline at the pump. Now the gross realization at point of sale, including gasoline tax for the year 1938----

Q THE CHAIRMAN: Would this permit of your taking a barrel of crude oil, taking the field price of it and going on through and showing the consumer why he is paying what he is for his gasoline?

A Yes, that is correct.

Q That is fine. It is then a very useful statement?

A Now then 19.7 cents per gallon is the average sales realization of all the products sold, manufactured and sold from a barrel of crude oil, which amounts to $6.7095 per barrel.

Q That is realizing, allowing for the loss?

A Well this is the gross sale value from the wholesaler's point of view. This is the tank waggon sale value.

Q MR. FRAWLEY: You are breaking up the consumer's dollar, is that another way of putting it?

A Well the wholesaler when he sells the products manufactured from a barrel of crude realizes in total from those products, including the gasoline tax, $6.7095.

Q THE CHAIRMAN: Yes?

A Now he accounts----

Q Is that based on today's situation, Mr. Bronsdon?

A This is the situation that existed in 1938.

Q What were you paying for your crude then at this same time that you got, you realized this $6.7095, what did you pay for a barrel of crude?

A Our average cost was $1.30 per barrel.

Q MR. FRAWLEY: At the well?

A At the well.

Q THE CHAIRMAN: Yes?

A But included in the statement is the laid-down cost at the refinery. That figure is included in this statement.

Q Yes, that is for 1938. Sorry to interrupt you but I would like to follow this as we go along, you were then paying $1.30 at the well and your cost of transportation was what per barrel?

A The cost of transportation, freight to destination is .84 cents per barrel.

Q MR. FRAWLEY: Are you sure that the Chairman meant that, you mean the cost of getting the crude to the refinery?

Q THE CHAIRMAN: I meant the cost of getting your crude to the refinery?

A Well the pipeage was 15 cents per barrel, Mr. Chairman.

Q And that would be 15 cents then, so you were paying really $1.45 for the crude at the refinery door?

A That is correct.

Q And do I understand that at the refinery door you realized in that year $6.70?

A No, that figure would not be at the refinery door. That is

the figure at the bulk distributing point, that is the realization on the sale to the dealer.

MR. HARVIE: May I suggest-----

THE CHAIRMAN: You see what I want to get at, Mr. Harvie, if we can get at it?

MR. HARVIE: Yes, I think I see your point.

THE CHAIRMAN: We are starting with crude oil and I think the public would be interested and certainly this Board is in this picture, we start with crude oil at $1.30 in the field and the 1938 picture was, the cost of transportation to the refinery is 15 cents, that is $1.45 at the refinery, he sells that for something and he realizes $6.70, now if we could be shown what goes on in between concretely.

MR. HARVIE: I think maybe that is being done but in a reverse way; in other words it has been made I think quite clear that there is no such thing as a standard or a recognized or a regular uniform retail profit; that varies at each station but there is more or less a uniform wholesale price of all products over the year and I think this picture of $6.70 odd is the total realized from the sale of all products from a barrel of oil wholesale, including taxes.

THE CHAIRMAN: Well after you have sold it.

MR. HARVIE: Then we back down and show how that $6.70 is distributed, first of all in marketing and in refining and in pipeage or cost of crude materials to the refinery.

THE CHAIRMAN: Well go on in your own way.

WITNESS: Yes, might I suggest we could go through the statement and probably it will be clear to

you as we go through it.

(EXHIBIT "478")

THE BRITISH AMERICAN OIL CO. LTD.

BREAKDOWN OF AVERAGE SALES REALIZATION PER GALLON AND PER BARREL PROVINCE OF ALBERTA SHOWING PERCENTAGES OF CONTROLLABLE AND NON-CONTROLLABLE ITEMS - YEAR 1938 RESULTS.

		Amount Per Gal.	Amount Per Bbl.	Percent.
Gross realization at point of sale including Gasolene Tax		19.17¢	$6.7095	100
Deductions				
Freight to destination		2.40	.8400	12.52
Taxes				
Sales Tax	.66			
Municipal, licenses and business (Mktg.)	.15			
Refinery Taxes	.03			
Income Tax	.35			
Gasolene Tax After refunds to farmers, etc.	3.75	4.94	1.7290	25.77
Marketing Costs				
Agents Commission	1.04			
Depreciation on Plant	.30			
All other	1.15	2.49	.8715	12.99
Manufacturing Costs		1.80	.6300	9.39
Cost of Crude Oil and other Materials laid down at Refinery		6.27	2.1945	32.70
Net income available for contingencies, obsolescence, sinking fund provisions and dividends		1.27	.4445	6.63
		19.17	6.7095	100.00
Controllable Items				
Mktg.		2.49	.8715	12.99
Manufacturing		1.80	.6300	9.39
		4.29	1.5015	22.38

22.38% of Average tank wagon price 19.17¢ per Gallon

= 4.29¢ per gallon of which

1.04¢ represents Agents Commission

and .48¢ covers depreciation

1.52

leaving 2.77¢ per gallon to cover Manufacturing and Marketing Costs = 14.44%

Q THE CHAIRMAN: Yes?

A The $6.70 odd which the refinery receives from the sale of these products, that is the products obtained from a barrel of crude, is accounted for as follows----

Q MR. HARVIE: You take that figure as 100% too?

A Yes, 100%. Freight to destination 84 cents per barrel. This covers the cost of transporting the finished products from the refinery to destination, that is to the bulk distributing branch and delivered into the tanks at those points. The refinery then pays in taxes of various kinds, which includes sales tax, municipal, license and business tax, in connection with the marketing of petroleum products, refinery taxes, income taxes, gasoline taxes after refund to the farmers has been allowed, a total of $1.7290 per barrel, which then gives him for marketing those products, which includes agents commission, depreciation on plant, and all other marketing expenses, $.8715 per barrel; the manufacturing costs of the refinery amounted to 63 cents per barrel.

Q MR. HARVIE: That is $.63 per barrel?

A Dollars per barrel.

Q MR. FRAWLEY: Is that the 1938 figure?

A Yes, that is right. His crude oil and other materials cost him, laid down at the refinery, $2.1945 per barrel, which leaves the refinery a net income available for contingencies, obsolescence, sinking fund provision and dividends, .4445 cents per barrel.

Q MR. HARVIE: That is dollars per barrel again?

A Dollars per barrel, excuse me, $.4445 per barrel.

(Go to number 11,441)

H. H. Bronsdon

These different expenditures and the balance left over equal the sum realized for the products, namely, $6.7095 per barrel. These figures have been expressed in both cents per gallon and dollars per barrel and percentage of the total. Freight to destination represents 12.52%; taxes represent 25.77%; marketing costs 12.99%; manufacturing costs 9.39%; cost of raw materials 32.70%; and his net income amounts to 6.36%.

Q MR. HARVIE: You might just read the break-down in cents, too, I think, Mr. Bronsdon?

A The break-down in cents per barrel is as follows: Gross realization at point of sale including gasoline tax 19.17¢; freight to destination 2.40¢; taxes 4.94¢; marketing costs 2.49¢; manufacturing costs 1.80¢, cost of crude oil and other materials laid down at the refinery 6.27¢. Net income available for contingencies, obsolescence, sinking fund provisions and dividends 1.27¢ per gallon.

Q THE CHAIRMAN: Taking everything you sell, whatever the product be, and you make a profit, you call it a profit, which accounts for your profit and for reserve contingencies and the like of 1.27¢ per gallon?

A That is correct, Mr. Chairman.

Q Now does that take into account everything you sell?

A Everything we sell, yes.

Q Converted into gallons, your heavy oils?

A That takes into account.....

Q Every product?

A The total sales, yes.

Q No matter where you get it?

A That is right. It refers to the figures shown on

H. H. Bronsdon

Exhibit "476 O," total gallons sold by the company in Alberta, 25,373,324 gallons.

Q You say that this strikingly useful statement has a back ground of support in the Exhibits you and Mr. Miller put forward, and justification for them, for this in them?

A These figures express the results shown in our Exhibits in another way, but they are exactly the same figures. Of these figures the only items that are controllable by the refiner and the marketer is the marketing cost of 2.49¢ per gallon and the manufacturing cost of 1.80¢ per gallon.

Q Which are these?

A Marketing costs 2.49¢ per gallon and manufacturing costs 1.80¢ per gallon, a total of 4.29¢ per gallon. Of the total of 19.17¢ per gallon the refiner and marketer only has direct control of 4.29¢ per gallon of that amount. That 4.29¢ per gallon amounts to 22.38% of the average tank wagon price of 19.17¢ per gallon, of which 1.04¢ represents agents commission, and .48¢ covers depreciation. The total of these two amounts 1.52¢ deducted from 4.29¢ per gallon leaves a balance of 2.77¢ per gallon to cover manufacturing and marketing costs. This 2.77¢ per gallon is equal to 14.44% of the gross realization. And the marketer and the refiner in that figure has to take care of his refining and marketing operations, which includes refinery labor, operating material, fuel burned, repair labor, repair material, electricity, water, insurance, workmen's compensation, tank car loadings, and refinery management. And then in the Marketing Department salesmen and selling expense, bookkeeping

H. H. Bronsdon

and clerical expense, and delivery expense and advertising, exchange, legal expense, bad debts, postage, rent, stationery, heat, light, phone, telegrams, warehouse wages, and marketing management.

MR. HARVIE: I do not know whether that answers your question, Mr. Chairman, or if that is the picture you wish depicted.

THE CHAIRMAN: Well, yes, but it takes in all products, of course, and your difficulty would arise in approaching it from the other way in that all the things you sell do not come out of a barrel of crude oil. Some of it is a prepared product brought in from somewhere else, and I suppose for that reason you have a difficult, if not an impossible task, to show us what a barrel of crude oil was converted into and what it costs to do so.

MR. HARVIE: This statement has taken the company some time, and they have given a great deal of care and thought to the preparation in order to make it as fair and complete a statement of that situation as we think it is possible to present. There are difficulties, as you suggest, of presenting it, starting at the other end. It may be possible but we question as to whether it would be as fair a picture after you finish as this presents.

MR. FRAWLEY: You see, Mr. Chairman, this shows a realization of 80.89¢ per gallon, an item lubricating oils and miscellaneous products, as you have

just called attention to, which has nothing to do with.....

THE CHAIRMAN: Where do you see that?

MR. FRAWLEY: Exhibit "476 O," Page 4. As Mr. Bronsdon says, this figure is supported by "476 O." If you look at "476 O", Page 4, you will see exactly where Mr. Bronsdon's 19¢ comes from. "476 O." The last page. There are 4 pages in Exhibit "476 O". The last sheet. Total 25,373,324 gallons.

THE CHAIRMAN: I have $3,136,198.77.

MR. FRAWLEY: That is the net realization. But just opposite the word "total", the 25,373,324 gallons?

THE CHAIRMAN: Yes, I see.

MR. FRAWLEY: That is the total number of gallons of all products this company sold and they had a gross realization there of 15.42¢.

THE CHAIRMAN: Yes.

MR. FRAWLEY: You take that figure and add 3.75¢ net gasoline tax going back to Mr.Bronsdon's new Exhibit, and you get 19.17¢, that is right, Mr.Bronsdon, is it not?

A That is correct.

Q The reason you take the 3.75, you simply work it out as though the gasoline tax really was a tax of $3\frac{3}{4}$¢ on all people because of the gallonage on which there is a refund. That is why you take the 3.75, I take it?

A That is right.

MR. FRAWLEY: Now then, Mr. Chairman, in that figure of 15.42¢, when you go to the top of

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that Page 4,and you are dealing with lubricating oils there and miscellaneous products, which might be anything, batteries, and so on, you have a realization there of 80.89¢ per gallon. Is that right, Mr. Bronsdon?

A Yes, that is correct.

Q 80.89 gross. There are certain deductions and that gives you a net realization under that heading of 64.25¢ per gallon. That figure is in the 19.17¢ that Mr.Bronsdon has shown us. I am merely following up the very pertinent remarks that this stuff that comes from Pennsylvania and all over.....

MR. HARVIE: Everything is in there, the stuff that is lost, and the stuff that is burned, and the stuff that is sold, no matter where it comes from. It is the over-all picture?

A We have made many figures on this subject and anyone who is familiar with the sales realization method of apportioning costs and selling values and who has worked on these figures to any considerable extent, you will find that there is a very definite relation between the actual yield from a barrel of crude and the results that you obtained from the sales of the products and particularly of the crude. If I can make that clear. That is in any one accounting period you do not always tell exactly every gallon that is produced from the barrel of crude, and you must make allowances for your inventoryies. But after those allowances are made it is remarkable how closely those percentages come out. I venture to say I could make up a figure like this and take up a barrel of crude and

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the actual products that were produced from that barrel of crude, and assume that all of those products were sold and I would get practically the same result. Now as far as including lubricating oils in this picture I think we are quite justified in doing that because they are, after all, petroleum products and the sales value is included in the sales realization and the cost is included in the cost of the crude oil and other material laid down at the refinery. So after all it is an average picture, and I think I will add and it fairly clearly depicts the actual situation that exists as between the cost of the crude at the well and the amount realized by the wholesaler for the products sold.

Q MR. FRAWLEY: You say it is difficult and I know. I appreciate what you have done in giving us this. But you are selling these foreign oils, they are foreign to Alberta crude, and foreign to your Alberta operations. You might just say you are the purchaser and seller of these lubricating oils and miscellaneous products. But if we could as the Chairman says take your laid down refinery cost of a barrel of crude and follow that through, with all the difficulties that I know there are.

THE CHAIRMAN: Getting all the products out of that barrel that you do get.

MR. FRAWLEY: There are not very many. It is a fairly simple situation. You have gasoline and distillate and these heavy fuels you gave us yesterday?

A My point, Mr. Frawley, is this, that you get practically the same result here that you would get from the figura-

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tion that you suggest. And the difficulty in obtaining the figures that you speak of, is that the first thing we would be faced with would be breaking down the marketing costs as between lubricating oils and the other products that we may manufacture in this area.

Q MR. HARVIE: As I understand it, Mr. Bronsdon, there are no arbitrary figures in this at all. These are actual figures from start to finish?

A Yes.

Q THE CHAIRMAN: Supposing you did not break it down but said a certain amount of your marketing costs were involved in selling these foreign products, of course?

MR. HARVIE: The minute you did it any other way you must necessarily interject some arbitrary figures and allocations as between, such as we say we realize so much from the sale of lubricating oils and greases which we do not manufacture from Turner Valley crude. Now in marketing that is all one cost. You cannot segregate it. A man delivers a tin of grease and a gallon of lubricating oil and a drum of gasoline and you cannot distribute it any finer than that in the marketing cost, other than in an arbitrary way.

MR. FRAWLEY: You have done that. That is the sales realization method. You could prepare the same figures, using this arbitrary sales realization method?

A And I say, Mr. Frawley, if I do, I get the same result.

Q I am willing to take your word for it, but it would be useful to see it?

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THE CHAIRMAN: It might be of interest to the ordinary people like ourselves who have not given a lifetime of study to this industry to know why a barrel of oil that costs $1.20 and you do certain things with that barrel when you get it. It costs you so much to get it in to your refinery. You do certain things to it, I care not what. By the method you ordinarily adopt, namely, the sales realization, as Counsel suggests, you surely could say what you got for it and why?

A Mr. Chairman, we will be glad to make up a statement, that is, a further break-down of this statement instead of these figures of the sales realization method.

THE CHAIRMAN: You see what I am getting at, Mr. Harvie, the ordinary person finds it difficult to understand and this is the place for that to be aired. And I think it is very good for your client.

MR. HARVIE: We appreciate it, and that is why we are only too glad to do anything we can.

THE CHAIRMAN: The ordinary man sees only the Turner Valley field where they pay $1.20 for crude. I do not care at all about it being too high to send the crude to Sarnia. I am practically sitting in this Valley. They get $1.20 for the crude. Why is it that I pay this for my gasoline? In the course of telling that you could also tell what somebody else is paying for other products that you make. And surely it can all be allocated, and you clear up in a satisfactory fashion, even though this does it just as well, you clear up something for the ordinary person in the street that I think would be very helpful work for everybody.

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MR. HARVIE: We wish to do that and we see the importance of doing it and we will be very glad to do that.

THE CHAIRMAN: I am sure it is in quite capable hands if you say you will make the try.

A I will be glad to.

MR. HARVIE: In other words, what the man on the street pays for the gasoline. This statement goes to show as far as all refining and marketing costs are concerned, except retail, in which this company is not interested. It is not in that kind of business. As far as this company is interested, it starts at the refinery and stops at wholesaling to the retailer. All that they handle that is not an expenditure to people outside of their own organization, is 4.29¢ plus 1.23¢, which is all that is left for everything else.

THE CHAIRMAN: And in the doing of this you place the responsibility for the sum total where it belongs. The Government are taking away so much that the consumers pay. All right, let it be so. If the railway companies are demanding what may be said to be exhorbitant rates, let us hear about it, and in the end you are showing the person who is not a chartered accountant why it is that with crude oil at a certain price per barrel next door to him he is paying what he is in the city of Calgary. Or the farmer who lives at Airdrie, for his other products which you may be selling to him. I mean it would be the most clarifying and an interesting picture that could be put forward.

MR. HARVIE: We will make another effort.

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THE CHAIRMAN: As interestingly as you put this one forward but putting it another way.

Q MR. FRAWLEY: You can do something else. You can bring it to the dollar that is paid for gasoline say in Red Deer, or some place where freight has been added and show them precisely, starting with the pump price, of a dollar's worth or five dollars' worth of gasoline and show how many cents goes to the railway and goes to the Provincial Government and goes to the Dominion Government, and goes for manufacturing costs and the marketing cost, and so on. That is not a difficult thing. The Imperial Oil Company had to do it in their Imperial Review. Would you try and do it accordingly?

MR. HARVIE: We have tried to do that but we do not think it gives as true or as fair a picture as this does.

A It is more difficult, Mr. Frawley, to obtain a figure of cost and with a great number of assumptions it is less accurate than taking the picture as a whole. This figure as we have stressed has no assumptions in it, and we can give you the over-all picture with a few assumptions. But you get down to the individual point and I am afraid the figure would not be very reliable.

Q MR. FRAWLEY: You said it was a difficult task perhaps and not very clear. You do remember that the Imperial Oil Company had a great big one cent or one dollar in the Imperial Oil Review and broke that up?

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MR. HARVIE: And the Texas had it in their Exhibit.

Q MR. FRAWLEY: And took pains to show how much was taken by the Government and how much was controllable and uncontrollable. Would that not be of some value to your people, following on what the Chairman says, it would show everybody where it goes and how much was taken up in taxes and freight and so on?

A As I understand it, that dollar that they broke up referred to the picture as a whole, and if it did then these things that we have submitted are comparable. I could quite easily break this figure up into a dollar. As a matter of fact, the percentages give you the dollar.

Q I go across the street and I spend a dollar in your service station across the street. Where does that dollar go?

A We tell you exactly here. We tell you 12¢ is spent for freight.

Q Now, I buy a dollar's worth and I will buy something with Tetra-Ethyl lead in it, just to give you something else to take away. Can you do that?

A We will possibly tell you 25¢ of your dollar goes to pay taxes.

Q All right. Now, can you tell me?

MR. HARVIE: More than that, in that case, because that would be 7¢.

MR. FRAWLEY: Then you tell me all about this uncontrollable marketing cost and so on?

A Yes.

Q Anyway, you get the dollar?

A I was getting it.

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Q I am very liberal with your time in doing that. Now, you have spent a great deal of time and effort in doing a lot of things and it is always the man who does most of the task who has to do more?

A We will see what we can do.

THE CHAIRMAN: Do not lose sight of what we are asking you to do, too?

MR. FRAWLEY: No, do that first.

Q MR. HARVIE: Just on that point, is it something you think you can do within a day or is it something that is going to take you a week's time to prepare?

A I think the way to do it properly that I should have about a week.

MR. HARVIE: I am just making it clear whether he can do it while he is here.

THE CHAIRMAN: If that can be done, it is very valuable. There is not that feeling that there is a mystery surrounding all this. A man down here knows that crude oil - his friend in the producing business is only getting so much for a barrel of crude. Now, how does this all happen? Now, here is a chance to clarify it in a simple fashion that the ordinary person will understand and then we will have that clarification examined. You see there are not many assumptions in this that I am proposing to you, Mr. Harvie?

MR. HARVIE: I think there are, Mr.Chairman, more than appear on the surface.

THE CHAIRMAN: You take a barrel of crude. Your lubricants you buy them and you sell them. That does

not involve the barrel of crude, does it? But the barrel of crude comes up intact with all its ingredients and you may suffer some unavoidable losses through evaporation or any other means. But it is untilately divided into its component parts, in made-up products of different kinds, and for that you get certain prices.

MR. HARVIE: That far it is quite possible and simple I think.

THE CHAIRMAN: Yes, and what is the difficulty? Your other things are . There may be difficulties in allocating costs in connection with marketing and the like?

MR. HARVIE: Yes.

THE CHAIRMAN: But you state your method of allocation and you state it is the only one you know of, and you at least produce a picture that is understandable to the ordinary man.

MR. HARVIE: It can be done.

THE CHAIRMAN: He says the reason I attribute so much cost to this product and that product and so on is because these are the prices we realize with respect to them and we adopt the sales realization method for the reasons it is impossible to say what any particular one in fact did cost, in this operation that involves in a measure making all of them at one time. Don't you think it is feasible?

Yes, Sir. We can split these figures down, break them down further.

I suggest you start at the other end where the ordinary man, in my view, starts in doing his thinking?

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A I know now how they will work out. They will prove that these figures are correct.

Q Well, that is the figure.

MR. FRAWLEY: That is one form. Look, Mr. Bronsdon, you told us yesterday what you got out of a barrel of crude. Let me put it this way. You have 100 barrels of 43 gravity A. P. I. crude coming in to your refinery and after you have processed that 100 barrels, at the other end of your refinery you have 62.42 barrels of gasoline and 2.52 barrels of kerosene and 5.48 barrels of distillate and .62 barrels of light fuel oil and you have 14.30 barrels of bunker fuel oil, and you have used up in gas 5.73 barrels and you have lost 1.93 barrels completely. Now then, cannot you take those barrels and whatever came out of the other door of the refinery and sell them and come back and tell the Commissioner what you got for each one?

A Yes, well that is practically what we have done in this statement.

Q I have not got any Pennsylvania oil in there at all. I have just got Turner Valley crude?

A That does not make any difference. That is all adjusted in the inventory and we will get the same results. As I said before, if I understood the Chairman and the Commission correctly, you want this expressed on the basis of the products manufactured from a barrel of crude instead of the products sold out of the barrel of crude. We are going to do that. I know now before I start that we will get the same results as I show on this statement.

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Q You say you get 6.70 dollars per barrel of all products?

A That is right.

Q Is that what you get if you sell one of these 62 barrels of gasoline and one of the two barrels of kerosene and so on down the line, you will get an average of $6.70 a barrel for all of it? That is what you mean, is it?

A No, the figure of 6.70 might vary.

Q It would not be each time $6.70, but when you get them all together and averaged them it would be $6.70?

A Yes, that is right, and all of the other figures have been adjusted to the proper relation that the gross realization bears to the cost, if I make myself clear.

MR. HARVIE: I think maybe what the Chairman would like is to take a barrel of Turner Valley crude forgetting all the greases and lubricating oils and everything and to give him as complete and as perfect a picture as we can as to the cost and what is realized from the sale of those products, and where the various parts of each dollar go.

(Go to Page 11,456)

Q THE CHAIRMAN: As you say you sell other goods and you pay for them?

MR. HARVIE: I am sure this will clear up.

THE CHAIRMAN: You say "It is part of our marketing costs to sell them, so we allocate a certain amount of marketing costs to them. As against that we receive for them the marketing cost, the cost of the goods, the marketing cost plus something or minus something as the case may be"and you have a pretty complete picture.....

MR. FRAWLEY: And then the allocation --

THE CHAIRMAN: That somebody can understand.

MR. FRAWLEY: Yes, and the allocation is not arbitrary.

THE CHAIRMAN: And we too may.

MR. FRAWLEY: The allocation is on a basis which is accepted and has been accepted for a long time as a sound method of allocation.

Q THE CHAIRMAN: Well, see what you can do, Mr. Bronsdon?

A Yes.

Q And we will appreciate it.

A We were requested in the proceedings yesterday to give a breakdown of the fuel oil and the bunker "C" fuel shown on Page 3 of Exhibit "476" (o); the total figure of 2,878,309 gallons includes ----

Q THE CHAIRMAN: What page did you say again?

A Page 3 of Exhibit "476" (o). The figures include light

fuel oil 202,437 gallons, value $24,040.62, average per gallon 11.85 cents; bunker "C" fuel 108,696 gallons sold, - this was mostly sold to drilling outfits in Turner Valley, - sales value $4,971.37, average per gallon 4.59 cents, and then included in the figure is the fuel burned at the refinery 2,567,176 gallons, value $75,895.59, average per gallon 3 cents. Those three figures make up the total of 2,878,309 gallons which shows an average value of 3.64 cents per gallon.

Q MR. FRAWLEY: I do not know how much assistance, clerical assistance, you have here, Mr. Bronsdon, in Calgary but would it be difficult to file a short statement of that in Exhibit form, what you are doing is breaking down the 2,878,309 gallons?

A I will do that.

Mr. Commissioner Lipsett made reference yesterday to the bunker "C" fuel and prices. In 1938, apart from the fuel burned at the refinery we only sold 108,696 gallons, a very small amount. As far as the bunker fuel bearing its fair share of all the charges I might say that we have always looked upon bunker fuel as a by-product and that it is sold in the market, when it is sold, in competition with other types of fuel. Our production of bunker fuel is gradually decreasing each year. There is far less being produced or there will be in 1939 than was the case in 1936 due to the fact that in 1936 we were operating in Alberta on Cutbank crude and because of marketing conditions we were cracking

less products than we are now; in other words we are producing more gasoline now and less bunker fuel so it would appear that our bunker fuel problem is a diminishing one.

On Page 11,367 of the evidence reference was made to the difference in the cost of running crude in 1938 as against our estimated figure for 1939 and looking over the figures for 1938 I observe that we were only producing 15.73% of cracked gasoline in that year. In 1939 we expect to produce over 25%. Also the marketing requirements have changed. There is less tractor distillate now sold than there was in 1938 and 1937. Our yields of that have changed from 12.06 in 1938 to 5.48 in 1939. Those figures all have a bearing on costs and would more than account for the difference between our cost in 1938 and our estimated cost for 1939, having regard to the yields.

Reference is made on Page 11,366 to the Bell cost of refining. We stated that this was a skimming operation and that accounted for the reason of the low cost. The unfinished products in the Bell had to be further, undergo further processing at another refinery and when the operation is fully completed the Bell cost will be in line or probably a little higher than the average cost for the year 1938.

Q MR. FRAWLEY: That is not a complete figure then. We cannot take that, the Bell cost as being ---

MR. HARVIE: It is complete as far as that refinery goes. It is just a skimming operation.

The cracked stock being shipped to the cracking refinery.

WITNESS: Mr. Frawley, you might say in one sense that no costs are complete in any one year because we always carry over at the end of any one year stocks which must be processed, further processed.

Q I know but suppose I have just a skimming plant, I am unfortunate enough only to have that, I have nothing but a topping operation, surely I know my costs, do I not, as well as the man who has a cracking unit, perhaps I just do not understand why you have to take the Bell figure and leave it sort of in the air?

A Well, as I understood the reference, we were asked why the difference between the two figures?

Q Oh, well.....

A And the reason of course is, as I stated before, that in one case the product went through two operations, both the skimming and the cracking and in the other case there was just a skimming and that accounts for the difference.

Q Well I mean here, it is on Exhibit "476" (k), cost per barrel at the Bell 34.15 cents. Now all I am bothered about, why that is not complete so far as the Bell refinery is concerned?

A Well, how can it be any more complete than it is?

Q That is what I mean, it is complete?

A It is complete so far as the operation at the Bell is concerned.

Q That is precisely what I mean and then you take that and then you take the Coutts' cost 82 cents and a fraction

and the contract with the Imperial, 54 and a fraction cents and you said our composite cost for 1938 was 56 cents?

A Commissioner Lipsett asked us to reconcile the fuel oil costs. The fuel burned at the Calgary refinery estimated for 1939 is $112,814.00. Mr. Commissioner Lipsett wanted to know how we accounted for the difference between this figure and the costs that we show in 1938 of $75,895.00. The cost in 1938 of $75,895.00 includes Coutts, the Bell and the processing account at Calgary and of the processing, apertaining to the processing account at Calgary the fuel cost is $67,160.03. This is the figure which we have to compare with our estimated costs for 1939 of $112,814.00. In the year 1938, under the Imperial processing account, the cracked gasoline produced was 15.73%. We actually manufactured in the year and cracked 107,775 barrels of cracked gasoline and we used 61,054 barrels of fuel oil. In 1939 we estimate that the cracked gasoline manufactured will be 25.4% of the crude which will amount to 260,600 barrels of cracked gasoline, really 250% more cracked gasoline, Mr. Commissioner, will be produced in 1939 and it will require 117,270 barrels of fuel for this operation. It means just that the picture is changing. We are now making more gasoline than we were making and less distillate and we are doing more cracking and that mean there will be more fuel costs, but in the aggregate, having regard to the difference in the yields, the operation will actually show that we are consuming less fuel oil per barrel of cracked gasoline produced in 1939

than we were in 1938 so there is a definite economy in the operation of the new refinery in regard to fuel burned.

Q MR. FRAWLEY: How do you get along with 250% less cracked gasoline in 1938 than you expect to in 1939?

A We show more absorption gasoline of course.

Q You were making the same product, standard gasoline, is there such a tremendous difference in the two products?

A We require much less absorption gas this year than we did in 1938 and that is the answer to the difference.

Q And it is the cracked that consumes the fuel?

A Yes, that is the fuel consumption is generally expressed as a percentage of the cracked gasoline produced. It bears a very definite relation to the amount of gasoline which you crack.

Q Yes, I see now.

A On Page 11,356 I was asked by Commissioner Lipsett how we financed our refinery extensions which were referred to in our brief as having increased from, as having represented a total expenditure of $9,000,000.00. I pointed out that since 1930 we had financed through the public sale of debentures about $10,000,000.00 financing. In addition to this in 1938 we sold in England $3,000,000.00 worth of the capital stock of the company which was used to complete the refinery at Calgary and to finance the change-over in our marketing setup in Western Canada. We also have in the past drawn from our depreciation reserve account for extension purposes. I might say that very

little profits in the company have been used for extension purposes for the reason that our dividend requirements, the net profits have ordinarily been taken care of by dividend requirements, leaving either four or five hundred thousand dollars over to take care of any other corporate financing necessary.

At the request of Mr. Frawley we have prepared a supplementary statement of the capital employed, net earnings and return on investement, adding on the year 1938 and our estimates for the year 1939 to the 9-year average which we have already submitted and it is referred to as Exhibit "476" (u). This statement -----

THE CHAIRMAN: That will be Exhibit "479".

(STATEMENT HERE PRODUCED MARKED AS EXHIBIT "479".)

THE BRITISH AMERICAN OIL COMPANY, LIMITED

SUPPLEMENTARY STATEMENT OF

CAPITAL EMPLOYED, NET EARNINGS & RETURN ON INVESTMENT

	Capital Employed in Alberta	Net Earnings	% on Return on Investment
Average nine years 1929-1937	2,641,050.95	103,031.08	3.90
1938	2,911,757.61	326,757.61	11.22
Estimated 1939	4,528,757.61	265,980.97	5.87
Estimated average 1929-1939	3,360,522.06	231,923.22	6.90

WITNESS: This statement shows that the 11-year average including our estimate for the year 1939 shows a percent of return on the investment in that period of 6.9%; that is based on the net depreciated value of capital employed and not on the total original cost of the plant and equipment located in Alberta. If the figure was computed on the original cost of the equipment it would be much less than this figure.

Q MR. FRAWLEY: This is very useful and it is very fine, Mr. Bronsdon, but what I had in mind yesterday was putting in 1938 and with it now you have done that and you have also added the year 1939 estimate, so you now show the period 1929 to 1939 inclusive?

A I understood your statement, Mr. Frawley, was that you would like to have it up to date.

Q Yes.

A I took that to meam you wished that to include 1939.

Q That is fine and if anybody else wants it for 1938 inclusive only, it is very simple to put it together from what you have now given us so thank you very much.

A We also promised to say something regarding the relative costs of the different grades of gasoline, having particular reference to the spread between standard "Q" brand gasoline and Ethyl gasoline, and we would like to submit as an Exhibit a calculation showing the difference between the cost of Nevr-nox and Ethyl Gasoline.

Q THE CHAIRMAN; Showing the difference between the cost of leading for Nevr-nox and Ethyl gasoline, is that right?

A The first part of the statement ---

Q Or is it nevr-nox as leaded?

A Well the first part of the statement deals with the actual difference of the cost of leading and then we go on from there and deal with the total overall cost including the difference in marketing.

Q I see.

A That will be Exhibit "480".

(STATEMENT PRODUCED HERE MARKED AS EXHIBIT "480".)

Q Yes?

A This calculation was prepared by our refinery engineers after a very careful study and is intended to show the difference in the cost of leading Turner Valley gasoline as it is now manufactured and marketed in Alberta. I might say that we have made many figurations similar to this, because the cost of leading varies and we can produce figures to show variations in the cost of leading from .592 cents per gallon as high as 1.09 cents per gallon. I mention this to indicate that there is a variation in those costs but taking the average 2½ cents per gallon difference in the selling price of the two brands is approximately, reprosents approximately the correct difference in the costs of the two products.

(Exhibit 480)

THE BRITISH AMERICAN OIL COMPANY, LIMITED

In dealing with the relative costs of the different grades of gasolene, we submit the following computation:

A calculation showing the difference between the cost of lead for Nevr-nox and Ethyl Gasolene

The refinery production plus Absorption Gasolene has an average octane rating of 58.6 L-3 method.

Q MR. FRAWLEY: You might explain what L-3 method means?

A Probably Mr. Kaley of the Ethyl Corporation might explain it better than I can but I will attempt to explain it. The L-3 method is the method used to determine the knock rating of gasolene having regard to the use of that gasolene under road conditions.

Q MR. HARVIE: It is a recognized method of testing your Octane, is that it?

A Recognized method of testing the octane, that is it?

Q MR. FRAWLEY: Well Mr. Bronsdon, before you leave that, you say "the refinery production plus absorption gasolene", that may be a little confusing, what does that mean?

A The actual refinery production at the Calgary refinery we will say at the present time has an average Octane rating of 58.6 L-3, that is that the total production of gasolene at the refinery has an average rating of 58.6. I think that will be explained as we proceed in the statement.

Q Fine, all right.

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A 58.6 octane gasolene blend would be represented by the following:

	Barrels	Percent	Rating	Average L-3
Straight Run Gasolene	298,000	76.60	56.13	43.1
Cracked Gasolene	91,000	23.40	66	15.5
TOTAL	389,000	100.00		58.6
After deducting the requirements of Tractor or Third Grade Gasolene - Straight Run Gasolene	155,000			54
The average octane rating on the balance is as follows: Balance of products available for Nevr-nox & Peerless-Ethyl gasolene	234,000			60

Due to the low lead susceptibility of straight run gasolene produced from Turner Valley crude, it is necessary to make Ethyl gasolene entirely from a cracked product. The number of points gained in octane by lead is referred to as degrees of surceptibility of lead in gasolene. Some gasolenes can be raised higher in octane than others with the same amount of lead. A fully cracked product requires the maximum lead allowance of 3.6 c.c.'s per Imperial Gallon. Maximum amount of tetraethyl lead to be used in gasolene was first set by the U. S. Bureau of Health. This control of the amount of lead was extended to Canada by the Ethyl Gasoline Corporation. To provide for our Ethyl gasolene requirements then out of the above batch of 91,000 barrels of cracked gasolene we require to reserve 38,000 barrels for Ethyl gasolene base, leaving 53,000 barrels of cracked gasolene available for other blending. The remaining gasolene

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therefore has suffered a loss in octane rating as follows:

	Barrels	Percent	L-3 Octane Rating	Average L-3 Octane Rating
Straight Run Gasolene	143,000	72.95	56.3	41.0
Cracked Gasolene	53,000	27.05	66.0	17.8
TOTAL	196,000	100.00		58.8
Ratio of Nevr-nox to Ethyl base	$\frac{196,000}{38,000}$ = 5.5			

Ethyl Gasolene Lead Cost:

To raise 1 gal. from 66 L-3 Octane to 78 L-3 = 3.6 c.c's x .003 = $ .01080

To raise 1 gal. from 58.8 L-3 Octane to 60 L-3

= .15 c.c.'s x .003 = .00045

To raise 5.15 gals. from 58.8 L-3 to 60 L-3 =

5.15 gals. x .00045 .00232

Total leaded cost per gallon - Ethyl Gasolene $ .01312

To raise 1 gal. 60 L-3 to Nevr-nox standard

= 2.4 c.c's x .003 .00720

Difference between Ethyl and Nevr-nox lead cost $ .00592

To sum up, these figures show that the Ethyl Gasolene lead cost is .592¢ per gallon over the cost of leading Nevr-nox standard gasolene. Taking into consideration the difference in marketing cost, the spread between Peerless-Ethyl and Nevr-nox gasolene is expressed as follows:

Difference in cost of manufacturing as described above		.592¢ per gal.
Add to this the costs of marketing in excess of those applicable to standard products because of the smaller volume:		
(1)	Sales Tax	.15
(2)	Excessive handling losses due to smaller volume	.12
(3)	Additional freight costs since movement of this product to agencies In Western Canada is by drum instead of tank car	.80
(4)	Cost due to additional marketing equipment, and delivery expense	.57
		2.232¢ per gal.

(Go to Page 11,469)

A That is taking into consideration the average between this figuration and the other figuration where the average octane loss is greater and the average works out at about 2.52 cents per gallon.

Q All I can say is I hope it is clearer to Dr. Brown than it is to me.

A Referring to the return on investment, we stated in our brief, Exhibit "475", page 23, that including the cost of our new refinery at Calgary and in computing the percentage of earnings to capital employed for the year 1939 and assuming that we obtained the same net result in 1939 that we obtained in 1938 our return on the investment would be 7.22%. We were then asked to give effect to the percentage of earnings on capital having regard to the changes which took place in the cost of crude and in the sales price of the finished products in 1938, having particular reference to the price changes which took place on June 2nd, 1938, and which naturally affected our profit for the balance of that year. We then say that if we were also to give effect to the cost of crude oil and the selling prices of finished products in effect as at May 1, 1939, which resulted in an estimated reduction in our net profit of $60,863.60 for the year 1938, our return on investment would then have been 5.87%.

MR. HARVIE: That is the point you have to make there. Now, we were asked to give any comments that we cared to in connection with suggested legislation or regulations and so on. Have you got any statement to make or any comments you would like to make in that respect?

H. H. Bronsdon.

A In regard to the request of the Chairman that our company make some submissions with regard to our views on Government legislation and Government taxation, I might say, Mr. Chairman, that we are preparing a considered brief on that subject. With regard to the question of taxation we refer to the amount per barrel of products sold, that is paid in taxes, on the statement and the breakdown of the average sales realization which amounts to 1.7290 per barrel. It is our view that there seems to be considerable duplication in connection with the various Provincial Governments. At our Toronto office - this may enlighten the Commission as to one view that we hold on the subject - in our Toronto office we have set aside a special office, a definite location for the exclusive use of the various Provincial Governments and other Governmental bodies who require to look into our books and auditors and so on. It is our opinion that there would appear to be considerable duplication from the amount of time which the auditors take in going over the operations of the company. These audits appear to be duplications in many cases.

MR. FRAWLEY: Duplication seems to go right along with the oil industry, does it not?

A It starts at the head down maybe, Mr. Frawley.

MR. NOLAN: Even in investigations.

A We are audited by the Gasoline Tax Departments of eight Provinces, the Income and Corporation Tax Departments of eight Provinces and the Dominion Government, the Sales Tax Department, the Customs and the Workmen's Compensation of eight Provinces. Succession Duty

auditors, Stock Transfer Tax auditors, and Department of National Defence and Bureau of Statistics. We are required to furnish detailed information on many subjects. The Gasoline Tax reports. We have noticed of late that these auditors have accelerated greatly their activities. They are interested in the oil industry. They now attempt to account for all the movement of crude from the raw product to the finished article and this applies not only to one Province in connection with the Gasoline Tax, but all of the eight Provinces. And they all seem to go over more or less the same work. These auditors are now interested in yields, losses, waste materials and slop recovery. They seem to be particularly interested, that is the Government, that we get every drop of gasoline out of the crude oil in order that the Government may get the Gasoline Tax. They are also interested in our losses. They enquire into the system that we use for controlling evaporation and expansion and contraction of the products in order to see that these losses are not excessive. They are interested in the waste materials and even in the slop recovery as to whether that could not in turn be put through the refinery again and more gasoline recovered. The Provinces require full information on company-wide operation. Quebec wants to know why Turner Valley developments should be excluded from their tax discount. Income Tax authorities argue about depreciation and mortgage loans and legal expense and amortization and well advances. We are required to furnish numerous reports under various Government Companies Acts to Government bodies. We furnish particulars of pipe lines and refinery

operations and marketing operations and particulars of merchandising, retail and wholesale, by Dominion and by Provinces; particulars of capital employed and much other information which, because of its intermittent character, is not recorded here. We have also been subjected to numerous investigations by Government bodies. I might refer back to the House of Commons Inquiry in 1932. Then the Tariff Board Inquiry in 1935 and again in 1937. The British Columbia Investigation in 1938 and now we are in the midst of an investigation in Alberta in 1939. The Investigations have and are costing this company considerable money. We estimate that the Alberta Investigation will cost us many thousands of dollars. It is our opinion that there is, as I said before, considerable duplication and that some real attempt we believe should be made to reduce the amount of the supervision and auditing that the oil companies are now subjected to by these various Government bodies.

Q MR. HARVIE: Just on that, Mr. Bronsdon, is it your view that possibly some joint body of investigators could, acting on behalf of the various Provinces and the Dominion, could very much reduce the amount of auditing work?

A Yes. I think that that would be a move in the right direction, to have one taxing authority who would take care---

THE CHAIRMAN: That is hardly the question. Mr. Harvie, you are suggesting---that would be a second answer, but you also think even if there is a taxing body for each Province that still the examination of the books could be done by one firm for all, is that right?

H. H. Bronsdon.

A Mr. Commissioner, I would go even further and say that we might probably be subject to one tax only, and then be audited by one departmnet.

Q Quite so. I am not forgetting that. But there may constitutional difficulties there but there can be no constitutional difficulty in employing one body of auditors?

A No, the Dominion Government and the Province of Ontario have worked out what appears to be a very satisfactory arrangement in connection with personal income tax. But that was not extended to corporations.

Q MR. FRAWLEY: Oh, it was not?

A No. I believe something along the same line could be worked out----

Q THE CHAIRMAN: What did you say they did, please. Just repeat that answer, will you?

A In regard to personal incomes in the Province of Ontario they are subjected to a tax both by the Dominion authorities and by the Province.

Q Yes?

A The individual files one income tax report with the Dominion Government and he pays the total tax to the Dominion Government, which represents the tax due to the Dominion and the tax to the Province. He makes one return and then there is an arrangement between the two Governmental bodies by which they take care of the allocation of the taxes.

Q MR. FRAWLEY: Then the Province of Ontario, I take it, has to maintain its Income Tax Department to audit and check up the collection of the tax from the corporations?

A Yes, they still keep separate their corporation tax return.

Q You would not think they would save much?

Q THE CHAIRMAN: According to the view, as I understand it, various taxing bodies net 4.49 cents on every gallon of gasoline, whereas you, who are supposedly running the company for your own profit, only net 1.27 cents per gallon of gasoline?

MR. HARVIE: We do not net that. That includes our net and a lot of overhead matters.

Q THE CHAIRMAN: I mean that is all you have?

A That is one way of expressing it, Mr. Chairman, and it is quite correct.

Q So Governmental bodies, who are also taxing bodies, have a much greater interest in the proper operation of your business than you have yourselves because they get more out of it, is that not right?

A Well, of course, they use us as a vehicle, but in the final analysis the consumer pays the tax.

Q It may be put another way, you are working for Government bodies for a return of 1.27 cents per gallon, out of which you must build up reserves for contingencies and obsolescence and all other things that happen in connection with the industry?

A That is the case, yes.

Q MR. FRAWLEY: You do not get anything for collecting any of these other taxes like you get from the Province for collecting the gasoline tax?

MR. HARVIE: Any fee for the collecting that is given effect to in the reduction in costs and reflected in these figures. It is miscellaneous income.

Q THE CHAIRMAN: What have you to say on the

subject of this taxation of your industry being comparable with the taxation on other industries in Canada?

A Mr. Chairman, we can only speak on behalf of our own industry, I think.

Q Do you feel you are being picked upon unduly to bear a greater burden of taxation than you should?

A I cannot say that apart from the gasoline tax itself, that I think our other taxes are probably comparable with the taxes assessed on industry as a whole. But in regard to the gasoline tax, it does seem to be an easy method of raising funds for Governmental requirements.

THE CHAIRMAN: Do you want to examine on this now or will we go on?

MR. FRAWLEY: If you have nothing further to ask on the subject of taxation, I only have a question.

THE CHAIRMAN: Yes.

Q MR. FRAWLEY: You say outside of the gasoline tax, known in this Province as the "Fuel Oil Tax", you feel your industry is not unduly burdened?

THE CHAIRMAN: He did not say that. He said as compared with the burdens that other industries had to bear, all of which may be too high.

Q MR. FRAWLEY: All industry is burdened and you say compared with other industries you do not feel there is any greater burden, outside of this gasoline tax now, but sales tax and municipal licences and business tax and refining tax and income tax, you feel that these are not out of line with other taxes imposed on other industries?

A Mr. Frawley, we have not made a study of the subject as it applies to other industries. I am only stating to you my impression and I am not stating what I consider to be

a fact.

Q Let me have it again so I will be clear upon that, just what you said?

A Our impression is that we are bearing with other industries our rateable proportion of taxes apart from the gasoline tax.

Q What have you got to do with the gasoline tax aside from collecting it and charging a fee for it?

MR. HARVIE: You are talking of Alberta only now.

Q MR. FRAWLEY: That is all I am talking about.

A You say what have we got to do with it?

Q Yes, what has the British American Oil Company got to do with it, and all the other gasoline companies lumped into one as an industry, what have they got to do with the Fuel Oil Tax except to collect it from me and charge the Government a fee for collecting and remitting it?

A Just enlarge on that, Mr. Frawley.

Q How does it bear upon you. Does it in any way bear upon you? It bears on me. I pay it at your station over there and you send it to Edmonton and make some deduction for doing it?

A I would say that is a way and a very economical and satisfactory avenue through which the tax is collected.

Q Yes, I know?

A If that answers your question. I doubt if the Government, if it collected the tax direct from the consumer, could do so at possibly less than two or three times our cost.

Q That is true. That is all true. But I am seriously wanting to know, because if it is a burden, and it may be a burden, and I would like you to examine it very carefully before

you answer, and if it is not let us put it on the record frankly. Is it in any sense a burden on the industry as such. No doubt about the burden on the consumer who shells out 7 cents every time he puts up 20 cents to buy a gallon of your gasoline. That is his burden. No doubt about that. But where is the burden on your company or on the gasoline companies in general?

A Did we infer it was a burden?

Q Yes, you surely did. That is, I am not speaking critically but that is what I notice about this statement and all these statements. The gasoline tax goes right in along with the sales tax?

A The statement we made was that we pointed out it was our opinion that the method of handling these various taxes, that there appeared to be considerable duplication. Probably that is what you thought I had reference to.

Q I am very much interested in what you are saying about your whole tax burden all over Canada. But I suppose Alberta does not go in for a great deal of this auditing and super-auditing and re-auditing that you were telling us about a few minutes ago. That is as far as Alberta is concerned?

A We have not attempted to break it up and separate it as far as Provinces are concerned, but in the aggregate it amounts to quite a considerable burden.

Q It amounts to just what you have said, and I am sure everything you have said is just exactly so?

A Particularly do we notice the amount of duplication that exists. For instance, the Province of Alberta is interested in our shipments from our Saskatchewan refinery into Alberta,

and in order to be assured that they are getting all of their tax they want to go right back and get a full statement of the crude shipped into the refinery, the crude processed and what was made out of the crude, and they account for every gallon. Then the Province of Saskatchewan asks for the same information and naturally the Province of Manitoba want the same information. Likewise Saskatchewan requires this information on the operation of the Calgary refinery.

Q Yes, I can see where for the purposes of making certain on these inter-Provincial transactions that there is no loss of fees they have to do a lot of work outside their own Province?

A And then the information they are asking for has increased each year. We now have to give them very complete detailed statements of our marketing operation and, of course, it is all added to the burden. The point we see is that there is a certain amount of duplication.

Q You are coming at something that indicates, perhaps, a burden on your company as distinguished from the consumer that pays this 7 cents. As you say, you have to answer a lot of questions and you have to open up your office from time to time to these auditors. Have you ever tried to translate that - that is really what I am asking about - that is where there is, perhaps, this indirect burden?

THE CHAIRMAN: And a cost, a real cost, I suppose?

Q MR. FRAWLEY: When I say "burden" I am trying to translate it into dollars and cents. Have you ever tried to figure out what that amounts to? That is one

reason you get a fee for it?

A You mean to translate it into dollars and cents?

Q Yes, translate this burden into dollars and cents?

A MR. FRAWLEY: It is like trying to arrive at the cost of gasoline. We will have to use quite a few arbitrary assumptions.

Q It is as difficult as that, is it? Well, it may be you cannot tell us.

THE CHAIRMAN: And I suppose you have another objection, over and above the inconvenience and the cost incident to the inquiries by these taxing bodies and the accountancy work of their representatives that the position is that if the 7 cents was removed from the gasoline the consuming public would be happy if the industry added 1 cent on its own to build up proper reserves and keep itself on a proper basis, a proper financial basis.

MR. FRAWLEY: If the industry put itself on a proper financial basis?

THE CHAIRMAN: Yes. I gather from some of the witnesses the attitude is that right now the public feel that the refineries are getting all this money. If the Government would spread out this taxation over all the people instead of putting 7 cents on this particular commodity that they could charge something more themselves and with reason make a decent profit and build up decent reserves and have their industry on a proper business basis and the public still get their product for very much less than they are now?

A And it would be much easier to do it because if the tax was not so heavy then more gasoline would be consumed.

H. H. Bronsdon.

Q MR. FRAWLEY: Just following the Chairman's suggestion. There are so many million dollars got by the Province of Alberta by the 7 cent gasoline tax. We have to get that amount of money but we are going to withdraw the 7 cents gasoline tax, so we are going to increase your ordinary taxation, whatever it may be, income tax or whatever tax your corporation pays.

THE CHAIRMAN: And everybody else?

MR. FRAWLEY: And all other companies, gasoline and groceries and everybody else, and all individuals and everything. The Government would have the same net amount of money in the end but it would have been distributed among other classes of the community than the gasoline-purchasing class.

THE CHAIRMAN: Together with the gasoline-purchasing class?

MR. FRAWLEY: Yes, but not as gasoline purchasers.

A It is really too important a subject for me to attempt offhand to make any statement on. I think a statement could only be made after very considerable----

Q I would like to get your opinion?

A Study and information. Now, you have available to you the facts and figures regarding the operation of the Government that are not available to us. I might suggest that it might be profitable to make such a study.

Q My study started with the assumption that the Government would not want to lose and could not afford to lose any portion of this revenue but they would simply shift the burden and take it off the motorists, take it off me and you as motorists, and put it on you and me in a different degree as ordinary tax payers. I wonder where the British

American would come in as the new tax payer?

A Maybe if we had an investigation we might find where more savings could be made than we are now finding can be made in the oil industry in Alberta.

Q More savings in the cost of Government, oh?

A That is just an assumption, of course.

MR. FRAWLEY: We will do that during the recess.

MR. HARVIE: I think they would have more than 2 cents to deal with.

MR. FRAWLEY: I think it is worth while just considering, you know. You might have to pay more in the end yourselves. However----

Q MR. PLOTKINS: This figure of taxes in your computation does not include production taxes nor taxes on the transporting end of it?

A That is correct.

Q And that should be added if you want to know exactly what amount of taxes comes out of that?

A Yes, our figure only starts with the well price or the feild price of crude and does not go back into production taxes. That is correct.

Q Or freight taxes?

THE CHAIRMAN: What do you mean by freight taxes?

MR. PLOTKINS: Well, the railroad. There is a sales tax on the amount we pay to the railroad. The railroad themselves pay taxes.

A We did not attempt to separate the taxes, the sales taxes on refinery equipment or anything of that sort. We have not attempted to do that in our figures. These taxes we are giving to you are only the direct taxes that are apparent in the operation of our business and not something that may

be passed on to us by the suppliers.

THE CHAIRMAN: Well, I asked you to, at least I asked Mr. Miller, to deal with the subject of field price and he referred us to you, you remember, Mr. Bronsdon. Are you prepared to deal with that?

MR. HARVIE: I think the situation, as I remember it, Mr. Chairman, was that we would give a prepared and considered opinion on that. That is now being dealt with by the executives of the company along with a considerable number of other statements and questions and will be filed and submitted in the proper time.

THE CHAIRMAN: It is going to be filed by a witness who understands what he is filing and can answer questions about it, I suppose?

MR. HARVIE: We will have to submit some person else.

THE CHAIRMAN: You see, there is just no value in putting in some paper and observations on it by someone who is not here.

MR. HARVIE: That is very true. Mr. Miller indicated he would likely be back and possibly Mr. Bronsdon and possibly Mr. Gaby will be back here.

THE CHAIRMAN: I thought this was left for Mr. Bronsdon.

MR. FRAWLEY: My recollection is as Mr. Harvie's is, that is something that they wanted some time to consider and they would come back and make a statement.

THE CHAIRMAN: That is your view, is it?

A I may say, Mr. Chairman, that the question of production comes directly under Mr. Gaby and he expects to appear before

this Commission at a later date in connection with summing up all our evidence and I think that it is his intention at that time to deal with this question of crude and the field price.

Q That will be satisfactory, Mr. Harvie, then.

(Page 11,484 follows.)

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MR. HARVIE: And there is nothing else in connection with this, so that then closes our brief that we are presenting at the moment. As I say there are the two points that Mr. Miller undertook to give considerably more information on and there altogether, maybe ten or fifteen other questions which have been asked during the Inquiry that the information will be filed as soon as it is obtained and I think the only thing left at the moment is to file the information respecting the Bell Refining Company. We have it available at the moment and possibly it might not even be necessary to read it. It might be filed and taken as read.

THE CHAIRMAN: You might let Commission Counsel see it and it will be Exhibit "481".

(BRIEF PRODUCED BY THE WITNESS BRONSDON IN REFERENCE TO THE BELL REFINING COMPANY HERE MARKED AS EXHIBIT "481")

Q THE CHAIRMAN: Now those things which we were speaking about this morning, will you be producing those, Mr. Bronsdon?

A What have you particular reference to?

Q The working out of this barrel of crude, you remember?

A Yes, I can produce it if necessary.

THE CHAIRMAN: What is your plan about that, Mr. Harvie?

MR. HARVIE: Well I really have not had an opportunity of discussing that with Mr. Bronsdon, how long it will take. Maybe over the recess we might consider it.

THE CHAIRMAN: Very well. We will recess right now then.

(An adjournment of fifteen minutes was here taken)

MR. FRAWLEY: There is nothing further that you have, Mr. Harvie?

MR. HARVIE: Just before we touch that, Mr. Chairman, I have discussed the matter of filing the additional information that has been asked for from Mr. Bronsdon and he is of the opinion that it will take some considerable time to prepare all the information that we have to file and that we have not already filed and that when that is available and ready we will take it up through Commission Counsel and some competent witness will appear to file it.

THE CHAIRMAN: That is quite satisfactory. I just wanted to be sure that the person filing the document is able to answer questions in respect to it.

MR. HARVIE: Yes.

THE CHAIRMAN: There have been occasions on which people have attempted to file documents prepared by other people heretofore and the result has been very unsatisfactory and it does not give proper weight to the work done by the man who really knows about it.

MR. HARVIE: We appreciate that.

Q MR. FRAWLEY: Now Mr. Bronsdon, you have given the Commission in Exhibit "481" the balance sheet and a profit and loss statement as of December 31st, 1938, for the Bell Refining Company, Limited?

A Yes.

Q And that is the way the statement has been described?

A Yes, that is so.

Q And that is the way it can properly be described, the whole statement?

A Yes.

Q Now frankly I expected that you would file a brief of some sort, a very short statement in memorandum form of the Bell operation. I thought you might deal very briefly but historically with your acquisition of this company, what its operations have been to-date and whether it is now anything more than a purely marketing company, which I think it is, just a marketing company, and where it markets, I mean where in the Province it markets, whether it markets, as the other companies do, through commission agents, what bulk outlets it operates if any, and where they are and what the investment is in those bulk outlets at the different points and whether it is, whether it uses freight, uses the railways to transport its products or does it transport by truck and generally, really I had expected a much more comprehensive statement. Now the alternative would be to try to do it by question and answer through the record and that would be somehwat less useful and much more loosely done and I wondered if a more comprehensive statment of the Bell Company cannot be filed. It is a local company with local offices and I would be content if Mr. McKee, the local Manager, presented a statement, or anybody else under your direction, although it is as you have told us a wholly owned British American subsidiary, I mention that so as not to keep you here unduly. As you know I have a certain task to do and that is to present to the Commission the operations of these marketing companies and I am very much afraid that to send down, you see this is my practical difficulty at the moment, to send down Exhibit "481" to Dr. Frey, it would not tell him all

about this marketing arm of your company, all that I think he perhaps would like to know. Now that is practically my problem and while this is very useful so far as it goes, I do not think it tells the story of the Bell Company. For instance I have received from Dr. Frey some suggested questions for the marketing companies and I am quite sure that the information which you have given would not begin to answer them and I suggest for instance, I show you Exhibit "314", the first two pages of Exhibit "314" which is the Imperial Oil Company's Exhibit, just those first two pages and it was suggested to me that I obtain a statement from each marketing company paralleling the statements contained on the first two pages of Exhibit "314", which is just a brief summary of the operations.

THE CHAIRMAN: Let him read it and see if he can do that.

MR. FRAWLEY: Might I interrupt to say that I asked Mr. Miller the same question the other day and he is preparing a statement, built up in that fashion, for your own company, for the British American Oil Company?

A Yes, Mr. Miller has prepared a statement in similar form for the British American Oil Company and we will be glad to file a similar statement for the Bell.

MR. FRAWLEY: Well that is fine.

MR. HARVIE: All the information is available I think so far as the history of the company is concerned, Mr. Miller gave that in considerable detail and anything which is not complete we will be glad to furnish.

MR. FRAWLEY: To make it very short, and I want to be short and yet do full justice to this, because

Mr. Macleod is here with the Texas Company to complete the examination of Mr. Meltabarger which we left unfinished some weeks ago and the North Star Oil Company are coming tomorrow morning at 9 o'clock if they can get in. If I gave Mr. Harvie a copy of the memorandum of questions which Dr. Frey suggested and if you use these as a guide and insofar as the Bell Company is concerned, its operations do not permit of them being answered, then just ignore them, then I would be satisfied and it would be useful to Dr. Frey, which is what I am anxious to do at present, that is to present this information to him for his consideration and ultimately for the Commission of course.

THE CHAIRMAN: You said the Imperial has made a statement on these two pages?

MR. FRAWLEY: Yes.

THE CHAIRMAN: That would be a satisfactory one if you obtained such a statement for this company and Mr. Bronsdon says he will do that. Now do you want something more.

MR. FRAWLEY: Yes, I have about a dozen or so questions, suggestions, of the same kind which I would be very glad to give to Mr. Harvie so that they could have them before them when the written memorandum which Mr. Bronsdon is good enough to say they will submit for the Bell Company is being prepared.

MR. HARVIE: Mr. Frawley, I imagine the memorandum is the same as we have?

MR. FRAWLEY: That is the one I gave you.

MR. HARVIE: We will be very glad to submit a copy of that to the Bell and have any answeres which

are not already answered completed and filed.

MR. FRAWLEY: Thank you very much. That is very satisfactory. Then I do not think I need ask Mr. Bronsdon anything further.

THE CHAIRMAN: Any more questions of Mr. Bronsdon? Well, Mr. Bronsdon, I would like to say as I did with Mr. Miller that we are very appreciative of the great labour which you have put into the presentations which you have put before us, We consider them very excellent ones. What weight will be given to them is a matter for us when we have heard all the evidence but we would like you to know that we note with pleasure that you are making a real effort to assist this Commission.

WITNESS: Thank you, Mr. Chairman. I appreciate your remarks very much.

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CECIL D. MELTABARGER, having been recalled, examined by Mr. Macleod said:

MR. MACLEOD: We have certain additions to put in to our brief and the exhibits filed.

THE CHAIRMAN: We did not file your original brief and I think that should be done at some time.

MR. MACLEOD: As your Lordship will remember the Exhibits are in this large book and we have replacements for them here and then we have replacements for the brief, we have three copies of the corresponding tables and charts which go in the book.

THE CHAIRMAN: These books have to be really revised then?

MR. MACLEOD: Yes.

THE CHAIRMAN: Then we had better not mark

them and make them exhibits until we have the completed book.

MR. MACLEOD: Perhaps Mr. Cutler could make the insertions in their proper place.

THE CHAIRMAN: I much prefer that you deal with your own exhibits. Mr. Cutler, like myself, might be in error, and it is only then confusing your evidence, which you do not want, so if before tomorrow morning you could have these completed, Mr. Macleod, and you surely can, both these books,why that would be quite satisfactory.

MR. FRAWLEY: What you suggest, Mr. Macleod, supposing this is one that has to be replaced, you would have Mr. Cutler or Mr. Taylor mark it, this is now Exhibit "333".

THE CHAIRMAN: That is quite all right. They can take it out and put in the other but what I want to see Mr. Macleod or Mr. Meltabarger do however is to see that they go in the correct place. Our clerk should not have the responsibility of that.

MR. MACLEOD: There is one for instance which has to be replaced, Exhibit "354".

THE CHAIRMAN: And the reporter will interchange them.

MR. MACLEOD: I understand in the British American evidence that the books were marked and each table or chart was given a separate letter. The same scheme was not followed here but each Exhibit was marked individually.

THE CHAIRMAN: That is so.

Q MR. FRAWLEY: Now, Mr. Meltbarger, you will recall when you left the stand on the 30th of June,

I had asked you some questions and I think we should deal with those first so far as we can and then I want to put to you further questions which I have shown you this morning, which are being asked you at Dr. Frey's suggestion. Now going to the transcript at page 10,392, we were talking about the question of dumping or not dumping and I suggested that you should either bring your customs broker so that we could talk more particularly about the precise mechanics of your importations or you could do it yourself , whichever you wished, after informing yourself. now what have you got to say?

A We discussed the question with the Brokers and they said they could not add anything because they only serve in the capacity of our agent in paying the assessed charges, the Customs Duties and so forth.

Q Yes?

A We then contacted the Customs officials here and they said they could not do anything either because they said they have no knowledge of the arrangements of the Dominion in that connection; now to clarify the matter I might say this that I have here a sample of the form used by the Dominion Government, Form S.151.M.A., an invoice of goods sold by the Exporter prior to their shipments to Canada and this is an invoice covering, and it is the same form on which all of our shipments are made, covering petroleum products purchased by the Texas Company of Canada, Limited, of Calgary, Alberta, from the Texas Company of Delaware, New York City, to be shipped from Sunburst, Montana, the Great Northern and C. P. R. Railway, Order No. Canada, Calgary District, 546. It shows the invoice of one tank car containing

8064 gallons of Fire Chief Gasoline at 6¼ cents per gallon under the heading of "Fair market value at time and place of shipment, see clause 4 of Certificate of Value hereon" and another heading "Selling price to the purchaser in Canada", that is 6¼ cents and the total amount, this invoice shows the amount of freight to be collected, destination and the agent of the company to whom it is consigned, the octane rating, type of gasoline, and then below is a declaration by the agent of the Texas Company of Delaware certifying that he is the agent of the Texas Company, exporter of the goods in the within invoice mentioned or described; that the invoice is in all respects correct and true; that the invoice contains a true and full statement showing the price actually paid or to be paid for the said goods, the actual quantity thereof, and all charges thereon; and (4) that the said invoice also exhibits the fair market value of the said goods at the time and place of their direct exportation to Canada and as when sold at the same time and place in like quantity and condition for home consumption, in the principal markets of the country whence exported directly to Canada and that the said fair market value; (a) In the case of new or unused goods is not lower than the actual cost of production of similar goods at the time and place, plus a reasonable advance for selling cost and profit; (B) Is without any discount or deduction not shown and allowed on invoices covering sales for home consumption in the country of export in the usual and ordinary course of trade; and (c) Is without any deduction on account of any drawback or bounty or on account of any royalty actually payable thereon, or payable thereon when sold for home consumption, but not payable when

exported, or on account of the exportation thereof, or for any special consideration whatever; (5) That no different invoice of the goods mentioned in said invoice has been or will be furnished to any one; and (6) That no arrangement or understanding affecting the purchase price of the said goods has been or will be made or entered into between the said exporter and purchaser or by any one on behalf of either of them, either by way of discount, rebate, salary, compensation, or in any other manner whatsoever, other than as shown in the said invoice; (A) That each article on this invoice is bona fide the produce or manufacture of the country specified on the invoice as its country of origin; That each manufactured article on the invoice in its present form ready for export to Canada has been finished in such specified country of origin, and not less than one-half the cost of production of each such article has been produced through the industry of United States of American entitled to the benefits of treaty or convention rates or the British Preferential Tariff.

MR. FRAWLEY: Let us file that then.

MR. MACLEOD: That, my Lord, is a copy of the actual form used.

Q MR. FRAWLLY: Is it covering one of your own shipments?

A It covers the actual shipment and the same is used on all shipments.

MR. FRAWLEY: If it is satisfactory to the Commission. Otherwise you can bring the original and file that as an Exhibit.

A Well I do not know whether we could let that go out of our office.

Q You are certifying it to be a precise copy, that is quite all right so far as I am concerned, Mr. Chairman.

THE CHAIRMAN: Yes, that is satisfactory and that will be Exhibit "482".

(FORM OF INVOICE PRODUCED BY WITNESS HERE MARKED AS EXHIBIT "482").

(Go to number 11,495)

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Q MR. FRAWLEY: Now I do not want you, Mr. Meltabarger, to feel you have to bear the whole burden of this troublesome question of whether or not there is any infraction of the dumping regulations in connection with the importations from Montana, but we are inquiring into it to find out precisely what is happening, and you will recall that when you were here on the 30th of June, I asked you to be good enough to bring one of the members of that firm of brokers to the Commission to make a statement on behalf of your company regarding these importations of gasoline from Montana, so that we will know what all these rules are, and referring to a question of valuation and regulations and what these different prices are. Now, this is the first figure that I have at the moment, Mr. Meltabarger, the price which is shown on this form, Exhibit "482" is 6½¢ as being the fair market value at the time and place of shipment, see Clause 4 of the certificate of values hereon. If you assume with me that comparable gasoline is purchased at the Big West refinery, some few miles from your place of business, or refinery, or your parent'company's refinery at Sunburst, by Mr. Trimble, who imports into this province at 7¢ a U. S. gallon from the Big West refinery - assume with me that is what Mr. Trimble will swear to when he comes, 7¢. And then the 77 Oil Company that purchases gasoline from the North West Refining Company at Cutbank, that the prices that they pay for 77 Gasoline - which you will assume with me is, generally speaking, a comparable gasoline - it is standard gasoline, and that that price is 7.25¢ or 7¼¢ per U. S. gallon?

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THE CHAIRMAN: You want the Witness to assume that?

MR. FRAWLEY: Yes, assume that that is what the company, when they come, will say, 7¼¢ f. o. b. Cutbank, Montana.

THE CHAIRMAN: And what they say is true?

Q MR. FRAWLEY: Yes, and that what they say is true, that they say 7¼¢ and that Mr. Trimble at the North West or Cutbank, that company that they buy from - I will have to find that, the North West Refining Company, Cutbank, Montana, that is one price, 7¼¢, and Mr. Trimble from the Big West Oil Company buys 71 or 72 octane cracked non-leaded gasoline at 7¢ a U. S. gallon, and you buy your gas from them at 6½¢ per gallon. Well, I do not know what to ask you about that. What can you say about that, from what you understand about the rules, Customs rules and regulations? What do you understand from that situation as to whether or not there is dumping or are they all complying strictly with the Customs requirements?

A My understanding is this, first, that the Customs rules do not say that the fair market value for export to Canada shall be at the price at which all gasoline is sold in the State of Montana of that particular grade, at all. It is the fair market price, that is the price at which that particular gasoline is being sold by that particular company in the State of Montana for home consumption. Now, regardless of that, secondly, this invoice is based upon an agreement arrived at with the Dominion Government for a basis on which the fair market value for the import to Canada of the Texas Company of Canada Limited by the

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Texas Company of Delaware, shall be declared, based on the crude oil price, and I have submitted to you that agreement, and this invoice is in accordance with the agreement between the Dominion Government and the Texas Company of Delaware for the import of gasoline, or the export of gasoline to Canada, and on this basis it will be the fair market value so far as we are concerned for your gasoline shipped into Canada and that invoice is on that basis.

Q You understand then that the only investigation that the Dominion Government attempts to make is to satisfy itself that 6½¢ is the fair market value of the Texas Company of Delaware having in mind what it sells to its other marketing branches at in the United States?

A That is right.

MR. MACLEOD: You mean it is the only investigation with regard to this?

MR. FRAWLEY: I mean with regard to your company. I get clearly from you, and if you are right about that, it is helpful to me, they are not concerned with what the Big West Company.....?

A Not a particle.

Q .....Or with what the North West Refinery Company do at all?

A That is right.

Q In other words, it is what is taking place, what Mr. Trimble is doing with the Big West Oil Company may just be quite in accord with the regulations.

A That determines their fair market value and not ours.

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Q The facts may be, and let us assume they are comparable gasoline, that all three of them are being exported at three different prices, and as you understamd it there may be no violation of the Customs regulations?

A That is right.

Q THE CHAIRMAN: The same product that is coming into Canada, exactly the same product, coming into Canada from the same source and going to the same destination might have three different Customs duties.

MR. FRAWLEY: Well, it is all 1¢ a gallon?

A The Customs duty would be 1¢ regardless.

Q What do they call that again, the duty, it is so much per gallon?

MR. MACLEOD: There is a regular import duty. But this is the dumping duty we are talking about.

A There is no dumping duty. There is a dumping charge which will be assessed and the assessment for dumping purposes would be the difference between the invoice price and the fair market price at the point of shipment. For instance, if we shipped gasoline in to here at 6¼¢ and the Dominion Government determined that 7¼¢ was the fair market price at Sunburst at the time of shipment, we would be assessed the 1¢ difference for the dumping duty, the difference between the two.

THE CHAIRMAN: That is by the gallon?

A Yes.

MR. MACLEOD: The difference in those two prices. The fair market value and the selling price. Your selling price is 6.25¢. If you had placed in this column 5.25¢ you would have to pay the difference to the

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Dominion Government?

A No, if the fair market value in Montana was less than we pay, we would still be complying with the Dominion regulations.

Q But if it were higher?

A If it were higher.

Q If you paid 1¢ less than that you would have to pay the 1¢ to the Dominion Government?

A That is right.

MR. NOLAN: It seems to me, Mr. Appleton's evidence was to the effect that 5¢ was being paid by some of these persons who were importing gasoline into this province?

MR. FRAWLEY: That is third structure gasoline.

MR. NOLAN: On what basis does that come into Canada?

Q MR. FRAWLEY: Do you bring in any third structure?

A A very small amount.

Q What is the price comparable to 6½¢ for that product? I think we had it in one of your statements?

A I think it is 5.75, but I would not be sure.

MR. MACLEOD: Here it is. Table 99, Page 717.

A As of November 30, 1938, it was 6.069, but it has since been reduced and I think it is 5¼ at the present time.

Q MR. FRAWLEY: 5¼? Let me put this to you, Mr. Trimble will say when he gives his evidence that he is buying third structure gasoline from the Big West refinery

in Montana at 5¢ and importing it into Alberta and into Saskatchewan. And as I gather there is some complaint about that. That is, that is someone's contention that constitutes dumping. Would you say that the fact that you are paying 5¾¢ for, let us assume, the same product, that would not have anything to do with whether or not that was dumping or not? One would have to find out what the Big West Oil Company sold to others like Mr. Trimble that gasoline?

A In Montana for home consumption.

Q For consumption in Montana?

A Yes.

Q And if they are selling to comparable purchasers down there for 5¢, then that is the end of it?

A No, I would not say that. The Dominion Government might decide that that was too low a price and for the protection of the Canadian manufacturers they would day that the fair market value for export purposes would be something else, and should be what we pay, for example.

Q They do not blindly accept, if that company was turning out 5¢ gasoline to everybody on that side and this side, below what the Dominion Government thought it cost to produce that gasoline, they would not be blindly accepting that situation?

A That is right.

Q And they could arbitrarily fix for duty purposes some higher price per gallon?

A Yes.

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Q But short of that there can very well be as many prices for third structure or standard gasoline as there are refineries in Montana?

A Only if the Texas basis applies to each one.

Q MR. NOLAN: Undoubtedly the Dominion Government fixes the basis for third structure coming into Canada?

A For each marketer, each refiner. They have already told us this will be the basis on which you can import and this will be the fair market value for duty purposes for it. They may not have done that for the Big West, I do not know. Their situation may be entirely different.

Q THE CHAIRMAN: Just what I do not understand is why for third structure gasoline there should not be one duty?

A Of course there may be quite a variation in the quality of the product.

MR. MACLEOD: I think if you get the mechanics of it, you can understand. The only thing they hear is when something comes up for importation and this form is filled up. Unless they think the application is unreasonable and make enquiry each one is treated on its own basis?

A They may go back sometime, will maybe in the next month and may decide that Mr. Trimble has been importing gasoline at less than the fair market value and their investigation may show that and they may assess him dumping duties on that. They can do that if they have not already arrived at a basis.

MR. NOLAN: That bears out what I

am thinking. The Dominion Government does know what the fair market value of these various brands of gasoline is in Montana. Otherwise, they could not administer the Act. And having got that information, I think it would be of assistance to this Commission if they gave it to the Commission.

MR. FRAWLEY: You see that was my difficulty, because how could they say that 6½¢ is all right for the Texas Company and that 7¢ is all right for the Big West Company, and 7¼¢ for the North West Company?

A I can answer that this way. The North West Refining picture is fixed. They have a certain market for their products in Montana at a certain price. It may be 7¢ or it may be 7⅛¢, and because they can market their products at that price, they are not willing to sell it for less to Mr.Trimble or anyone else. So they will sell it to him for 7¢. Well The Texas Company of Delaware is selling it to us, its subsidiary, at what the Dominion Government has determined, or on the basis that the Dominion Government has determind for arriving at a fair market value of 6½¢ for a comparable quality gasoline. So when Trimble goes down, and if he wants to buy gasoline from the North West, he pays their price, that is their fair market price down there. Realizing that they are not willing to sell it for any less. The International Refining Company would not sell it if they were in a position to sell to Mr. Trimble. They might ask him more than they are asking us, their subsidiary, because they have not any gasoline that they want to market to him at 6½¢ the same as they are marketing to us.

Q That is why it is difficult.

THE CHAIRMAN: Why are we wasting time speculating on what the Dominion Government does? Let us have some Witness from the Dominion Government here and let us decide just how far he can be questioned and how far he cannot. I know of no reason why we should not find out if the anti-dumping laws are being enforced or are not, and how they go about it. I know of no Governmental secrecy about that. Mr. Meltabarger is speculating as to why and how they do it, but he does not really know. Let us have a man who really does know. If he refuses to answer on the ground of privilege, we will weigh his privilege.

MR. FRAWLEY: I was anxious to enquire of the Texas Company for a variety of reasons.

THE CHAIRMAN: If he establishes privilege, he will not answer, but if he does not, we will hear what he has to say. Now what is next?

MR. FRAWLEY: The next thing I have to ask you is with respect to your sale of gasoline in Southern Alberta and whether or not you had anything further to say about that. But I think it seems from your answer there that you did say everything you wanted to say about that. No. That is true. You said you would come back and you would be prepared to discuss that.

MR. MACLEOD: On what page?

MR. FRAWLEY: On Page 10,394. "I would like to know whether your company also sells third structure gasoline at certain points in Southern Alberta, as does

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the Imperial, at special discounts below tank wagon prices. By way of example you have told me this morning that your posted tank wagon price on the 1st of December, 1938, on third structure gasoline in Calgary was 14¢. I know the Imperial's price at that time and is today 12½¢ by virtue of the special discount. You can tell me now whether your company does sell gasoline at 12½¢ in Calgary, tank wagon, or not? Does it, or does it not?". And then I asked you to include in that all of the places in Southern Alberta, up to I think Red Deer where there was any special discount?

A We meet these competitive allowances when and as we think it is expedient to do so. In Southern Alberta, because in some places we sell an entirely different product to that sold by other companies, we do not meet these discounts. We sell our product at our price. That is, we pay no attention to their price at all. We get 1½¢ to 2¢ even above what they sell theirs for.

Q Then I asked you if you would file a statement showing the money invested by way of third party leases and cross leases, etc., are you able to do that?

A I could not give you that information definitely because I have not the information as to the cost of some of these .....You mean the Investment cost?

Q Well, yes, and everything about them. The rent paid and the rent received?

A I filed that in my brief.

Q Well now, in any case where you have, that is all I want, I want to put it on the record. Now this is the question. Elaborate on the third party leases, the number, rent paid

and rent received. The number, the amount of rent paid and rent received and the same for the company's leases, meaning what has been commonly called cross-leases. Can you tell us about that?

(Go to Page 11,506)

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WITNESS: Well, I have here a statement showing the operation of company-owned service stations for the Province of Alberta for the 11 months of 1938, showing the gallonage, rentals collected, the loss on operations, that is for 1938 and then the rental basis as of June, 1939, rental, monthly rental now collected and operated as it was paying and the amount of rent collected from certain of those stations and the setup.

Q MR. MACLEOD: That is a new statement?

A Yes.

THE CHAIRMAN: You are offering that as an Exhibit?

MR. FRAWLEY: Yes, we will offer it as an Exhibit.

THE CHAIRMAN: It will be Exhibit "483".

(STATEMENT PRODUCED BY THE WITNESS HERE MARKED AS EXHIBIT "483".)

WITNESS: Then I have a similar statemont ----

Q MR. FRAWLEY: You have a similar statement?

A For leased service stations for the 11 months of 1938.

Q Which the company owns the freehold and leases to somebody?

A No, those are stations which we lease from third parties who own them and then we re-lease them to the operators. The first statement was company-owned stations leased to operators and these are leased stations.

MR. FRAWLEY: I will offer this then.

THE CHAIRMAN: That will be Exhibit "484".

(STATEMENT PRODUCED BY THE WITNESS HERE MARKED AS EXHIBIT "484".)

WITNESS: Now the next Exhibit supplements that and that is the total Exhibit, showing for instance, Calgary, the total rental paid, the total rental collected, this shows the individual stations making up that composite total, that is the last statement.

THE CHAIRMAN: Exhibit "485".

(STATEMENT PRODUCED BY THE WITNESS HERE MARKED AS EXHIBIT "485".)

Q MR. FRAWLEY: You have copies of all those have you?

A Yes.

Q We might distribute them now then. Now Mr. Meltabarger, I notice that these Exhibits 483, 484 and 485 are all for 11 months of 1938?

A Yes.

Q And what is the particular reason for that?

A Well, at the time the investigation started and we were asked to make a submission all the auditing that the Provincial Auditors did and the auditing of our books for the Commission was based on 1937 business. Well then there was quite a long delay. Our reports, our brief and our entire submission was made up on the basis of 1937 operation originally but due to the delay we ran into 1938 to a point where we could compile similar information for the 11 months of 1938 and we did that and those figures are made, to make them comparable with the other part of our submission with reference to 1938.

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Q May we take this, if these are used by Mr. Cottle or anyone else, may they be used as being representative of the whole of 1938 to draw conclusions?

A All you would have to do would be to add the last month.

Q That is true.

A Rental paid and rental collected.

Q But what I meant was, if anyone was going to draw conclusions or make any submission about the information contained, would it be quite fair to come to the conclusion with respect to the whole of the year 1938 on this?

A Yes, I think it would be.

Q I would think so.

A Yes. I should like to revise that statement a little bit. There are certain expenses in connection with the operation of a station which would be reflected in losses, such as painting for example, when the last month's gallonage was added and divided into the total cost, after rental collected is deducted, would decrease the cost of marketing per gallon.

Q Well now, Mr. Meltabarger, I will take you over these questions and I show you Exhibit "314", Mr. Halvorson's Exhibit and the first two pages of Exhibit "314" contain a condensed statement showing the Imperial's operation set out in a certain fashion, would it be a great deal of trouble if you would parallel those statements contained on pages 1 & 2 of Exhibit "314"?

A I would not think so.

Q Would you be good enough to prepare that?

A I will be glad to.

Q Then now, assuming that your commission agent owns his own truck or trucks, what assistance does your company give him in the financing of his truck purchases?

A That depends upon the particular circumstances.

Q Will you just elaborate on that and say what you have to say about it?

A Where he needs assistance in purchasing the truck, we often loan the money to him to make the purchase or loan him what he needs and charge him a nominal rate of interest, 5%.

Q You charge him 5%?

A On the outstanding balance, the average.

MR. MACLEOD: And take a chattel mortgage?

Q MR. FRAWLEY: You take a chattel mortgage?

A No, we take a Bill of Sale on the truck in most cases and when he has paid the difference we transfer it to him.

Q And over what period do you assist him?

A That depends upon his circumstances, 12 months or 18 months is the usual.

Q Now Mr. Meltabarger, to the extent that it has not been already covered, would you say something about the arrangements which your company has for handling commercial consumer accounts?

A Well, we have very few commercial consumer accounts. I have a list of all of them here.

MR. FRAWLEY: We had better file that then and discuss it.

(DOCUMENT PRODUCED BY WITNESS HERE MARKED AS EXHIBIT "486")

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Q Now, you have given us a list of these commercial consumer accounts?

A Yes, there are 42 of them in Alberta and they purchase their gasoline in tank wagon deliveries at dealer's, at the tank wagon schedule less 1 cent per gallon, the same price as the 100% dealer pays.

Q Yes. They buy at the same price as the 100% dealer pays?

A That is right.

Q He buys it for resale, that is the way he endeavors to make his living by reselling your gasoline but you give the same price to the wholesale grocer who becomes one of your commercial consumers?

A That is right.

Q As you give to the retailer?

A Yes.

Q Did that never strike anybody in the gasoline business as being out of the way at all, did it, why a man, a consumer, should get the same price as the man who buys it for resale and is selling it to gain his livelihood?

A Well you will notice that several of those are the Alberta Government and some of them are the railways, some of them are the Royal Canadian Mounted Police, some of them are the Dominion Government like the National Parks.

Q They are all consumers?

A Some of them are cities and it is the established practice that all governmental bodies and municipal bodies purchase

at wholesale prices. Now when we get into the other commercial consumers such as Swift Canadian and other companies who are manufacturing and processing for wholesale sale and buying in tank wagon lots, buying by wholesale, in other words they buy all products they buy at wholesale prices.

Q That is true and they just demand you treat them the same as -----

A All other marketers of other commodities.

Q Yes but would you not think you were selling them at wholesale if you charged them the posted tank wagon? You sell them at the posted tank wagon and then something, you put them in the same class as the dealer?

A They buy in similar quantities.

Q Oh, I know. Anyway that is what you are doing and there is nothing that suggests itself to you of being at all unfair or irregular at all about selling to these consumers at the same price as you sell to retail?

A Nothing at all.

Q This may be a small matter, but you know there is a very grave possibility of abuse in this system. Perhaps I should say what I mean ---

A I do not understand you.

Q The X. Y. Z. Company, no matter what company it is, becomes one of your commercial consumers, goes on your commercial consumer list and that company has a great many employees and those employees have a great many, as Gilbert and Sullivan says, "sisters,

and cousins and aunts", is there not some possibility that the relatives and friends of the commercial consumer go in there and buy gasoline, the pump is there, the hose is on, all the facilities are there, any danger of that?

A Not unless the Government is a party to it and gives them a retail license.

Q Without any retail license at all, I mean without any retail license at all, I do not suppose a Packing company would be given a retail license, then they are retailers but what I am talking about, I do not mean that at all, I mean the X. Y. Z. company has a pump in its backyard or in its front yard with retail vending pumps, a tank and everything else, to supply gasoline and it is there to primarily service the trucks and cars used commercially by that company in its business, that is what it is there primarily for?

A Yes.

Q Now is there, has it ever been known that they, what you might say, abuse the privilege and permit the employees and friends of employees to buy at the special prices, even at the posted tank wagon prices?

A That is a big question. It has never been known to me, I have never known of that and I am quite confident if we ever found one of our commercial consumers doing that that we would discontinue selling to them.

Q You do not know of it happening?

A There are several reasons for that, we would not do it, if we were the Swift Canadian, for the simple reason that

the dangers involved in handling the product, the loss of handling and the cost of servicing those cars and so forth would be so great as to just make it impractical to do so.

Q Yes. Now on what basis do they acquire their equipment, their tank and pump?

A They purchase it.

Q Paying cash for it or buying it on time?

A They may do either.

Q Mostly they do what?

A It would be very difficult for me to answer. Most of them already own it I would say.

Q Own it?

A Have been doing this for years and consequently have paid up.

Q And have their own pumps?

A Yes.

Q Now a new person came, a new commercial account, what facilities do you give him for acquiring a tank and a pump?

A We sell it to him.

Q And how much, what percentage as a down payment would you exact?

A 5 or 10%.

Q And the balance spread over a considerable period?

A 60 months.

Q And if he decides to change from your company to the Imperial Oil or some other company, then what happens? he pays up the balance?

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A Either he does or they do.

Q I mean the balance is paid to your company?

A Yes, or we go after the equipment.

Q Do you also include road contractors among commercial consumers?

A Yes.

Q And you treat them the same way?

A Yes.

Q You do not lend any other equipment to a commercial consumer, do you, such as compressors?

A No.

Q Air compressors or anything of that sort?

A No, sir.

Q Now have you said everything you want to say about the steel barrel situation, that is the next question, what is the attitude of your company towards the steel barrel situation and have you any suggestions concerning the solution of that problem?

A Well it is quite a problem.

Q Well, your company does it, I suppose, like everybody else?

A We meet the situation as we find it.

Q Which means you do hand out steel barrels along with your gasoline to consumer customers?

A That is right.

Q You make no charge for the barrel?

A That is right.

Q And hope to get it back in due course?

A We keep a record of it, the serial number.

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Q They are serial-numbered are they?

A Yes.

Q Stamped "The Texas Company"?

A "The property of the Texas Company of Canada Limited".

Q There is a certain mortality in those barrels, I suppose?

A They make stoves out of them and water troughs.

Q And what do you do about that, you do not send the Mounted Police out to seize them?

A When we find a place like that we try to collect for the drums. Usually they cut the head off so you cannot identify it and it is just a mortality.

Q You only stamp one place then, on the head?

A That is it.

Q Well, what do you think about the steel barrels, have you a submission to make to the Commission, whether or not that practice should continue?

A Well we should like to see the consumer, the farmer, own his own equipment and the oil companies then deliver into that equipment.

Q Mr. Halverson says at Page 5 of Exhibit "314"

"Steel barrels are loaned to farmers and others,
"with the exception of shipments into remote
"areas such as the Waterways, where the barrels
"are charged for at $8.00 each, returnable for
"credit at the same price if in good condition."

you do not sell any gasoline into such remote parts I take it?

A No, sir.

Q Now this is really his submission on the point

"We intend to carry on loaning the steel barrels

"we now have so long as they do not need "replacement. When additional barrels are "needed it is our present intention to sell "the farmers non-returnable barrels at cost".

Mr. Halverson is speaking at Page 9 of Exhibit "314", what do you say about that?

A Well, we have never considered that.

Q That is just my point, have you a considered opinion to offer to the Commission about this?

A We are just meeting a competitive situation as we find it.

Q You will just continue to do what the other persons do and if they change you will probably change along with them?

A We will be compelled to, yes.

Q MAJOR LIPSETT: And what do you think about it, I suppose you are compelled to do it?

A Well if we wish to sell a farmer and he has no drum equipment, if he could obtain it from other companies he naturally would not buy of us if we did not furnish him with drums.

Q And if the other companies discontinued that practice?

A We would be delighted to follow.

Q You would not be compelled to do it then?

A No, we would be delighted to follow.

Q MR. FRAWLEY: Now, what is your company's estimated per gallon of tank truck haulage?

A We have none.

Q Both long and short haul, assuming long haul to be more than 50 miles?

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A We have no truck haulage of any nature at all and we do no hauling.

Q You have nothing to offer with respect to that?

A No.

Q And now what is the advantage to your company of entering into third party and cross leases?

A Well that was answered in my brief. There are two advantages as I see it, real advantages; first, it enables us to get into a market in which we are not presently established, where all the present marketers are, present outlets are, being serviced by other companies, without disturbing the competitive situation by taking in accounts from some other company and leaving them without a market. It enables us to get in there with a modern up-to-date garage and service station or retail facilities as contrasted with what we might find there, antiquated facilities, and it enables us to market at a lower cost than we could market at as a rule if we marketed through an established distributor. I think that is the only advantage or advantages.

Q What is the advantage to the dealer?

A That he has a modern set-up.

Q Well now, Mr. Meltabarger -----

A And he has Texaco products.

Q Yes, but you see you go into a town and you find an antiquated service station selling British American gasoline, and this I think is what you actually do, you go in there and you spend a lot of money ----

C. D. Meltabarger

A Not necessarily.

Q A considerable sum of money in remodelling, reconstructing, refinishing his premises, at your own expense?

A Oh no, no, never.

Q At your own expense you do not?

A Never.

Q Are you not building these beautiful service stations we see all over Calgary, there are two under construction?

A If we do we own them. We are not remodelling them for someone else.

Q You own them?

A Yes.

Q That is really the same thing, you go into a town then and you build premises at your own expense and then rent them to a dealer who is, we will say, now selling British American products?

A No.

Q In some antiquated premises?

A No, sir, we do not disturb the present dealer set-up at all. We build a place or find someone who has money who wishes to invest, who builds it for us and we lease it from him and we secure some entirely outside independent party to operate them.

Q But on a lease basis?

A We lease it to him, yes.

Q Your company has a lot of money, of course, and they can build these service stations, rebuild premises, a great many more than they have already built and that is your hope, I suppose, that you will continue to build

a great deal more?

A As the market expands and as we see the need for it and the possibility of recovering the investment.

Q You have to see the possibility of recovering your investment?

A Absolutely.

Q It is just a matter of how far into the future you look. Well, what do you think about the suggestion, that the main reason for tieing a person up with a cross-lease is to keep out competitors?

A We do not have such things as cross-leases.

Q Do you not go into a place and rent from X and then turn around and lease to Y?

A Oh, yes, but that is not a cross-lease, that is a third-party lease.

Q And that is the only kind you have?

A Well, we have, so far as independent dealers are concerned, we have not, insofar as I know of in Alberta, we have one in Macleod, Alberta, where our agent built the place and we leased it from him.

Q On Exhibit "485" you say "same party" under Calgary "same party, Gale & Lidgate", what does that mean?

A We leased that property from a lady who owned it, I cannot think of her name now and Gale & Lidgate had a lease, and we leased the place for a gasoline outlet at $1.00 a year.

Q I mean you have no places then where you rent from the operator and rent it back to him?

A Well we have, I say "Macleod".

Q At Macleod?

A From Mr. Schoagel, at $20.00 a month but he pays us 1 cent a gallon for the gasoline he sells through there so we recover more than our rent.

Q I am just bothered a little about what this "same Party" means on Exhibit "485", take Stettler?

A Well Stettler, we lease that from a man who lives here in Calgary and lease to our agent, Mr. Murray, who operates it. Now the Red Star station, where it says "Calgary, same party", Red Star, our agent, Mr. Campbell, built that station. We took a lease on it to enable him to borrow the money to build the station and we in turn licensed that back or leased that back to Mr. Eddie Robins who operates it and we recover our rent out of it. Didsbury, that is discontinued now, Didsbury was a case where we leased to a man by the name of Rubenstein, we loaned him some money to tell the truth about it, and we leased the premises to protect our loan.

Q On Page 2 you have "Stettler third-party", what does that mean; and then Stettler again "22,399 gallons"?

A Well, Mr. Murray, our agent at Stettler, built this little station out at Red Willow. He owns it and we took it under lease from him.

Q Wait, Mr. Meltabarger, I want to get this clear, that first "Stettler" that means the district of Stettler, does it?

A No, that is the one station that we have in the town of Stettler which we lease from a man who lives here in Calgary.

Q Why the two Stettlers there?

A Well, one is a third-party lease and the other is leased from our agent.

Q There is nothing there opposite "Stettler", Stettler third-party?

A Yes, Stettler third-party, and then that is Red Willow.

Q It shows "Stettler third-party"?

A This is a breakdown of this other one over here where it shows Stettler. We have a certain number of stations under lease over there and they sold that much gasoline.

Q I am afraid I am wasting a lot of time?

A This is a breakdown of that.

Q We will have to look at these Exhibits and perhaps ask you to come back?

A That is a breakdown of the individual stations making up the total.

Q To what extent does your company finance dealers who do not rent company-owned stations?

A What do you mean?

Q Well that is the question, to what extent does your company finance dealers who do not rent company-owned stations, that is the ordinary dealer who simply sells Texas products at his own garage or service station?

A The only financing we would do would be for an extention of credit for the purchase of products where his financial ability and integrity would warrant it.

Q That is all?

A That is all.

Q You do not advance him any money to refurnish his premises or anything of that sort?

A Well, there may be the exception to that. I do not know of one but we might, I do not know that we ever have.

Q Would you mind just checking and see if to any extent you financed dealers or retailers?

A I can answer that, there are none in Alberta.

Q None in Alberta?

A No.

Q Does your company have any plan for annuities, insurance or sick benefits for employees?

A We have.

Q You prefer to file some sort of memorandum about that?

A I have it.

(Witness here produces small booklet.)

Q This is for employees of the Texas Corporation and subsidiaries in the United States?

A We have the same thing with the Sun Life Assurance Company in Canada.

Q May we take it then that what is in force in the United States by virtue of this plan, this booklet, is in force in Canada?

A That is right, through the Sun Life.

(BOOKLET SHOWING GROUP LIFE INSURANCE AND PENSION PLAN PRODUCED BY THE WITNESS HERE MARKED AS EXHIBIT "487")

(Go to Page 11,523)

C. D. Meltabarger.

Q MR. FRAWLEY: This is the group life insurance and pension plan. The accident and sickness benefit plan. The vacation plan. The permanent total disability plan. For employees of the Texas Corporation and subsidiaries in the United States?

MR. MACLEOD: And that is extended to include this company.

MR. FRAWLEY: Yes, in the way Mr. Meltabarger says. Now, at page 712 of your brief, that would be your own presentation, Mr. Meltabarger, I think you talked about a service station supervisor. Now, you just referred to him by name there?

A Yes.

Q Just one of them?

A We have one in Alberta and one in Saskatchewan.

Q The one in Alberta, you did at page 731 describe his duties. Now, the comment is that the large wage----was the wage put in. I do not know where Dr. Frey got the wage. I do not know. You have made an Exhibit on the salaries but perhaps, you can tell us offhand without any too close a reference to it, to what extent does the service station supervisor assist and to what extent does he interfere with the independent operation by the service station dealer. You understand that does not mean in any sinister sense at all?

A He assists in this manner, in seeing that they have all of our advertising help, such as pamphlets, leaflets, signs, banners and things that go up at the stations, and bulletin board posters and things like that. And we try to educate these operators to maintain clean, tidy, neat and attractive

premises and seeing that the premises are painted as they are needed and operated in a businesslike manner. He assists them by holding dealers' trading meetings where they are shown the very latest methods of servicing automobiles or lubrication or otherwise. Motion pictures are shown where the service and the results secured thereby are exhibited and the products, information is given the operators and dealers as to the products and why they are made as they are and what their advantages are for special purposes and so forth.

Q To what extent does he interfere, I mean to what extent does he insist upon a certain course of action being taken by the dealer?

A To a very limited extent only. Of course, if the dealer is doing something we consider is illegal; for instance, running a booking agency, as we found one of our operators doing, or if we found them involved in bootlegging, as we found two of them doing, we naturally cancelled their lease. But otherwise, we would just counsel them and try to change them over from a lackadaisical unbusinesslike operation to a businesslike operation.

Q This is something that occurs to me and it may not be important. A service station operator is subjected from time to time to demands from truckers, some of these consumer accounts we have been talking about, to give a price which would obviate the necessity of that potential commercial consumer putting in his own facilities. You know that is going on all the time?

A Well, I suppose it is.

Q To what extent would your agent take any hand in that sort of thing at all?

C. D. Heltabarger.

A None at all.

Q To what extent would he object or have anything to say with respect to that two price operation?

A It is no concern of his at all.

Q If some of these Texas service station dealers are doing that, I mean selling at one price to the ordinary casual motorist and at another price to the fleet customer, as he may be called, that would not bother the Texas Company at all?

A If we found it out we would probably counsel with him and point out to him the danger of wrecking his retail price structure, or if he is selling at less than his cost of operation the fact he is losing money on it and things like that. But we would not say "You have to discontinue it."

Q I would be interested in knowing what your views are. The British American told us that they were sure that was going on right along. However, they were very casual about it, as I gathered, and thought it was something that could not be stopped.

THE CHAIRMAN: That could not be avoided?

A I do not see how it can unless you had a policeman at each pump. If we found out about it we would counsel with the man.

Q MR. FRAWLEY: Do you attempt to do away with it?

A We just do not. I say if we find out about it but we have no programme or policy as regards it.

Q What is your view of the possibility of having two prices, one for the ordinary casual motorist and one for the what you might call the volume purchaser?

A It might be a good policy.

C. D. Meltabarger.

Q There is some danger of them extending it to include friends?

A In other words, a large trucking concern that is buying thousands of gallons per year as against the average motorist buying just three or four hundred. He would buy in very much larger quantities and his cost of service would be much less than the average motorist who buys five or ten gallons at a time.

Q Would you look at page 733 of your original statement. There is an item there of publicity, local and dealer service, In 1937 it was $417.43, and in 1938 it was $2,496.00. Would you mind elaborating upon that, please?

A That is what we call local, that is directly local advertising. For instance, if we opened a station such as the Sky Chief station down here and we hired an orchestra and put on a dance and maybe served refreshments, maybe the expense of that grand opening would amount to three or four hundred dollars, and that is charged into that item.

MR. COMMISSIONER LIPSETT: What is the number of that Exhibit?

MR. FRAWLEY: Page 733 of Mr. Meltabarger's brief, which is not an Exhibit. Table 81 of Mr. Meltabarger's brief. It is called Volume 2.

A We might insert an advertisement in the special booklet that the Lions' Club is getting out for a convention they are going to hold. We might sponsor the broadcasting of a football game or a series of football games, or hockey games, or something like that, and that is charged in that item.

Q What is your company's idea in the matter of absorbing all rents and taxes of the service station operator. That is

to say making the company nothing but a landlord?

A I do not understand that question.

MR. MACLEOD: Excuse me, that Exhibit you are asking for is Exhibit "410".

Q MR. FRAWLEY: Well, in other words, if you rent premises from Mr. X, who owns it, and you pay him a certain rent, X dollars, and you re-rent that to one of your dealers, you do not collect the total number of dollars you yourself spend. There is a difference there which your company absorbs. Now, that is the suggestion as I have it from Dr. Frey, and he simply wants to have your views as to why that should go on, as against simply insisting upon on each occasion collecting what might be called the economic rent from your tenant?

A We try to do that and we are, with a few exceptions, now collecting as much or more rent than our cost.

Q Than your cost. That includes all costs?

A Yes, Sir.

Q Taxes, insurance, depreciation, repairs and everything?

A That is right.

Q Mr. Cottle points out on Exhibit "485" the total rent paid is $22,312.43, and the total rent collected was $17,907.97?

A That does not tell the whole story. That is because of the method of accounting that we use. That is the amount of rent we collected from the operator directly as rent. But in addition to that we sold to those operators last year 857,370 gallons of gasoline on which we collected an additional cent per gallon. So that we actually recovered from those stations an additional $8,573.70, and that is not shown there.

Q Well, Mr. Cottle will have to look at these Exhibits and,

perhaps, ask you for some more information if he needs it to understand them thoroughly?

A I may state that our intention is to collect in full the cost of every one of these outlets. But some local condition might temporarily prevail that would prevent that. But as a rule we do collect the rent.

Q What is the attitude of your company towards fixing the dealer margin?

A We do not believe in it.

Q You do not believe in that at all?

A No.

Q You are satisfied, if it should work out that way, to have any number of prices in the City of Calgary?

A There is no way that we know of of preventing that.

Q Mr. Miller told us it was a fact that there were lots, a great number of prices in the City of Calgary. Well, I have bought a certain amount of gasoline of all the companies and I have never paid anything but the same price all the time, and that was the price I knew to be the tank waggon, plus the recognized retail margin, which is pretty definitely recognized in this City as being 4½ cents, plus 7 cents. Well, 3½ cents for the 100% dealer and 4½ cents posted tank waggon. That has been recognized for many years. I was very much surprised to hear Mr. Miller say that. Now, what do you think about that?

A I hardly know what to say. It is a fact.

Q Let us take your company. If we sent a car around to each one of your service stations in the City of Calgary to-day, would the purchaser not pay 27 cents a gallon at all of your

stations for Fire Chief gasoline. That is, to anyone buying 5 gallons of Fire Chief gasoline would he not pay 27 cents?

A I should think so, but I would hate to say.

Q It does not matter to you if it is being sold at 25, 26, 27, 28 or 29 cents. It is absolutely no concern of yours?

A Only indirectly. We feel this way, we counsel our operators to this extent, that they have to make a profit and a living. We want them to make a decent living at least. If they are not ultimately they will go bankrupt and in debt and we have to get a new operator. We do not like that, naturally. It hurts our business. We try to get them to operate on a businesslike basis and make a reasonable profit. If they are giving away their profit we point out to them they cannot stay in business and do that, but other than that-----

Q You are interested in maintaining the solidity of the business, and in keeping the gallonage there, aren't you. Now, are you not afraid if they started charging 30 cents or 29 cents for Fire Chief gasoline that his gallonage would start to go down?

A You mean a higher price?

Q Yes. 27 cents, I am putting to you, is the price?

A Probably it would.

Q And if he started selling for 23 cents or 24 cents, would you not think that is hardly playing the game with the other operators?

A That is right.

Q And in the result does it not play out in the vast majority of cases?

A The trouble is we do not know about it.

Q You have a service station supervisor?

A He does not see each individual transaction. He does not know what they might give a consumer in the way of discount either at the time of the year · or at the end of the month, or any extra gasoline or a lubrication job.

Q I do not know how important it is, and perhaps it is not very important at all. You say it is going on. Mr. Miller told me, perhaps he was only being funny, that I did not shop around and I did not know about these things. You say that a man might very well go around the different Texas stations and get gasoline at different prices?

A I do not know. I do not think you could, but-----

Q I am just wondering to what extent it was going on, if at all?

A I feel if it were going on to any major extent we would know about it.

Q Would you express yourself about it? What is your view as to whether there should be something fixed, that this Commission should say, and after all it is one of the things they must enquire into, this Commission should say after hearing all they can about dealers' spreads and the cost of doing business and so on, that it should be 4 cents, 3 cents or 5 cents or whatever figure may be arrived at, and that maintained?

A Well, it would be easy enough to say what it should be but it would be impossible to maintain it.

Q It is the policing of it that you say cannot be done?

A It cannot be done. We have tried it, in other words.

Q THE CHAIRMAN: You have tried it and found it is impossible to prevent?

A You would have to have a man at every pump and oversee every transaction. Not only that, but you would have to get

what this operator had, whatever money he had in his pocket at the end of the month. When we are not present he could give it back if he wanted to. If he does that we know and it is proven by the fact that we operate in certain places test stations to find out what it actually costs to operate, and as near as we can determine they cannot operate on less than a margin of 4 or 5 cents, and it is gradually increasing as the minimum wage laws and union activities require certain numbers of employees at a station, numbers sometimes in excess of the actual requirements for the service, in order to avoid strikes and things like that. I am speaking now of the States. We know that they have to have a margin large enough or they cannot stay in business and make a decent living. And if they give away very much of that they soon find themselves in difficulties.

MR. COMMISSIONER LIPSETT: If their gallonage was doubled would they be able to operate on less?

A It might increase their cost to such an extent that, because of congestion in the driveways and their facilities for service, and the size of the premises, that their cost would be even greater per gallon and not less.

Q You mean if they doubled their volume you do not think it would reduce their cost?

A It might and it might not. I gave you an illustration of that, that the big business of the service station is in certain hours and they will sell, in the course of two or three hours as much as they will sell in the rest of the day. And they usually take their men off the other work they are doing, for instance, repair work or

greasing or washing, and use them in these rush hours. And then they use them in their other activities in the meantime. If they doubled their volume they could not do that without increasing the number of their employees to such an extent that they would be idle a great portion of their time. It would take an individual analysis of each particular case. In some cases it would decrease their cost and in others it would increase their cost.

Q MR. FRAWLEY: Would you mind looking at page 878 of your presentation. That attracted Dr. Frey's attention. That is the difference in these dealer margins in certain places in the United States and in Alberta and other parts of Canada. He wants to know if it should be inferred from this table that Alberta margins will advance or is to be inferred that Alberta distribution is less wasteful and consequently has a lower margin than some other places cited, or is the inference that duplication is less pronounced in Alberta?

A You would have to make a lot of presumptions to make an inference such as that. For example, you go down to Butte, Montana, which is controlled in every detail by the unions.

Q By the unions. You mean the mine unions?

A Yes, the labor unions. They tell you how many operators you must have at a station and what these operators can do and cannot do. For instance, they would not permit a man who is greasing a car to service a pump. They have a different cost picture than you will have in Calgary under the present situation. That might come to pass in Calgary. Now, they also tell you how much you have to pay

the managers of these stations and how much you have to pay their helpers and how many days' vacation a year you must give them.

Q The spread in Butte, Montana, is-----

A That, I think, is the highest anywhere in the United States as far as we know.

Q 5.24 cents?

A That is right.

Q The same figure in Calgary is 4 cents?

A That is right. It is 4½ cents. This was made up before that time.

Q We were talking about that the other day. It is 4½ cents in Calgary as against 5.24 cents in Butte?

A Yes.

Q And at Chicago it is 5.3. That is in the City of Chicago where there must be a tremendous volume?

A Yes.

Q In New York it is 4.9 cents. What do you say about that, about the spread say in Chicago as against the spread in Calgary?

A Well, Chicago is an entirely different picture. That spread is one thing but what they give - they give you sets of dishes and most anything from puppy dogs up, as a reward for your business there.

Q The reward for buying gasoline?

A Yes. You can get almost anything for furnishing your house in service stations there. The spread is largely fictitious. That is the spread supposedly, but it is not maintained.

Q What do you say----

A For example, you go out to Vancouver, and the spread is supposed to be 5 cents. But really, it is only 3 cents because the spread is based on 22 cents tank waggon. The actual retail price in Vancouver to-day is 25 cents. The spread of 5 cents is based on 27 cents retail price and the actual price in Vancouver to-day is 25 cents, so they are making only 3 cents although the established price is supposed to be 5 cents.

Q Is there an established spread?

A The tank waggon price is 22 cents for the 100% dealer. The retail price that is posted up at the station is 27 cents, but they are actually selling it at 25 cents, so they are only making 3 cents.

Q Why do they keep that posted price at 27 cents when they charge 25 cents?

A Competition.

Q I want to get as much usefulness out of your evidence as I can. What do you say, looking at these spreads, qualified as you now say they must be qualified. Should Alberta margins advance? Do you think they will advance and that they are out of line with these larger spreads?

A There are two factors. We have an undeveloped market here. The consumption of gasoline in Alberta is some two thousand gallons less than it is on the average to places in the States where they have better highways. Now, we have to look forward to a very large cushion and additional gallonage coming through this station, which will, as you suggested a moment ago, bring more volume and more revenue to the operators and at the 4 cent margin they will be better off in the future with the same operating costs than they are now. But we have this tendency of shorter

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hours and of minimum wages, which have been recently increased, and other factors, and the possibility of unionization which may balance them or maintain them as it is or may tend to increase it.

Q I take it from what you said earlier that you have not a great deal of concern with the retail margin?

A No.

Q Can you tell us how much it costs per gallon, on the gallonage through service stations, to maintain credit card service. If that has not already been covered?

A Well, that is another hypothetical question. It costs something, of course, for accounting purposes. On the other hand, it produces a very large volume of business.

Q Are you able to say. I suppose there is some purpose in asking this and getting some idea what this service costs?

A The costs separate from the accounting point of view, is the credit card sales losses, that is account losses.

Q There would be losses and then the accounting costs?

A In 1938 of $185,864.90 worth of business in Alberta, or Calgary and district we lost $314.18.

Q If we file that, that might be useful. You have a statement showing that, have you?

A Yes.

Q We will discuss that after we have marked it, Mr. Meltabarger

(STATEMENT SHOWING COST OF OPERATING CREDIT CARDS IS NOW MARKED AS EXHIBIT "488".)

A That might not turn out to be a loss at all because some time in the future we might collect most of that. Often we do. The last two or three years our collections of

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written-off accounts has been greater than our write-offs during the current year. So that might turn out to be a loss or it might not.

Q That is only for the Calgary district. Have you got anything else?

Q THE CHAIRMAN: What is that statement, Exhibit "488"?

A A statement of the credit card sales as compared with other credit sales for the year. In addition to the sales that we make we have also transfers, of course, of business that comes from across the Line. Then we show on the bottom the particulars of our bulk station and credit card losses in 1938 and on total credit sales our losses were 13/100 of 1%.

Q MR. FRAWLEY: This Exhibit contains all you can say about it?

A Yes.

Q Now, Mr. Meltabarger, apparently your commission rates to bulk plant operators are not the same and why is that so?

A Well, they are comparable. We have had to, in getting established in certain places where an agency was non-productive so far as gallonage was concerned, and in order to assist an agent to get established we have given him a little larger commission temporarily than our regular commission, than we have for commission rates. 2 cents is our established rate for Fire Chief and Sky Chief gasoline. When we get into 3rd grade structures and distillate due to the very small margin on those products we give our agents smaller commissions than on the other products.

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Q This is what Dr. Frey is referring to, Table 82, pages 746 and 747 of your presentation. Even on gasoline there, reading down these stations, station 61, 2 cents, and station 61, 2¼ cents, how would that be?

A That would be on a different product.

Q A different product of gasoline?

A Yes.

Q In other words, station 61 gets 2 cents and 2¼ cents?

A One is July 17th, 1934, and the other is July 1st, 1936. Something happened in the meantime that made it necessary for us to increase his commission to enable him to operate.

Q You have no hard and fast rule. I understand from the Imperial they have a certain setrate of commission that obtains all over the Province of Alberta?

A We have no hard and fast rule.

Q You have no hard and fast rule?

A No.

Q Then why do you say you see you have that flexibility?

A We just meet the situation as we find it. We cannot close an agency just because----well, for instance, Vulcan. A few years ago we had a fine business in Vulcan and then Turner Valley raw naphtha came along and that business went almost 100% to the raw naphtha. Our agency dropped in gallonage and down to practically nothing but still we wanted to maintain the agency there and we might have - we did not in that particular case - but we might have in order to retain that agency, have given him a temporarily larger commission to keep him there. Subsidize him to that extent, so to speak.

Q Does your company feel that the distribution of gasoline through service stations is sufficiently adequate to justify no further licences by the Province?

A Adequate for what?

Q Adequate to service the needs of the people, I take it?

A That would require a definition of the needs or an explanation of what the needs of the people are.

Q I would like to have your views about it, as we have the other companies' views so far, not all, but we would like to have your views about it. Do you think that looking at the whole of the Province of Alberta there are enough service stations to serve the 750,000 people that we have?

A At the present time there are enough to serve them in the way they are being served, yes.

Q Do you think that-----

A I do not feel that that would be adequate four or five years from now, by any means.

Q Probably not, but as things are at the moment you think there are sufficient service stations?

A To serve the people as they are being served with the products they are getting through them.

Q There is one other question, and I do not know whether you can answer it or not. Do you understand the mechanics in the State of Montana whereby this gasoline is sold to the Texas Company of Canada. Mr. Saunders may have covered it or if he has not perhaps you can do it. The Texas Company of Canada buys from the?

A Texas Company of Delaware.

Q It is the Texas Company and it is a Delaware corporation?

A Yes.

Q That is the only people you do business with?

A Yes.

Q If as and when you buy, you deal with the Texas Company, Delaware corporation?

A Yes.

Q The Texas Company, Delaware corporation, does not make gasoline. Where do they get the gasoline?

A From the International refinery.

Q Is there a sale from the International Refining Company to the Texas Company, the Delaware Corporation?

A Yes.

Q Do you know at what price that is sold?

A No, Sir.

Q That is what you do not know?

A No.

Q And the International Refining Company, there is no further complication there, they own the plant that makes the gasoline and, therefore, it is their gasoline to sell?

A That is right.

Q They sell it to the Texas Company, the Delaware Corporation, and it is all sold to them?

A That is right.

Q What -- your opposite number in Montana, Mr. Barton buys, he buys it from the International Refining Company?

A He buys from the Texas Company of Delaware.

Q What is Mr. Barton's company?

A The Texas Company of California.

Q A California corporation?

A Yes.

Q We have it then in Montana, the Texas Company a California corporation sells gasoline that it buys from the Texas

Company of Delaware, a Delaware corporation. The Texas Company, the Delaware corporation, buys from the International Refining Company, which is a wholly owned subsidiary of the holding company, the Texas Corporation?

A Right.

Q And similarly the Texas Company, Delaware Corporation, purchases from the International Refining Company and sells to the Texas Company of Canada?

A Yes.

Q You do not know the price at which the Texas Company, the Delaware Corporation, buys?

A No.

THE CHAIRMAN: Well, we will have some questions to ask the witness in the morning, so we will now adjourn.

(At this stage the Hearing was adjourned until 9:00 A. M. 19th July, 1939.)

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J. J. FRAWLEY

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The Province of Alberta

IN THE MATTER OF THE PUBLIC INQUIRIES ACT

—and—

IN THE MATTER OF a Commission, dated the 12th day of October, A.D. 1938, to inquire into matters connected with Petroleum and Petroleum Products

---

Commissioners:

The Honourable MR. JUSTICE McGILLIVRAY
(*Chairman*)

—and—

L. R. LIPSETT, ESQ.

Session:

CALGARY, Alberta July 19th, 1939

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WITNESS:

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E X H I B I T S

EXHIBIT 489
Volume 1 of the Texas Company's Submission, presented by Mr. Saunders.....11,541

EXHIBIT 490
Volume 2 of the Texas Company's Submission, presented by Mr. Meltabarger.....11,541

EXHIBIT 491
Blank form produced by the witness Meltabarger, showing the specifications of Petroleum Products used by the Texas Company.....11,546

EXHIBIT 492
Statement produced by the witness Meltabarger showing number of office buildings, main stations , bulk agencies, service stations, etc., of the Texas Company (similar to pages 1 and 2 of Exhibit "314").....11,546

EXHIBIT 493
Book of financial statements re North Star Oil Company Limited, produced by the witness Havelock.....11,577

EXHIBIT 494
Copy letter, dated July 12th, 1939, from Mr. Clayton of the North Star to Mr. Cottle, showing new prices for products purchased from Imperial Oil.....11,603

CECIL D. MELTABARGER, having been recalled:

MR. MACLEOD: Will we put these books in now, sir?

THE CHAIRMAN: Yes.

MR. FRAWLEY: Might it not be well to describe these as Mr. Saunders' volumes?

MR. MACLEOD: Yes, they were presented by Mr. Saunders and containing all the individual exhibits put in by him.

(VOLUME 1 OF THE TEXAS COMPANY'S SUBMISSION PRESENTED BY MR. SAUNDERS HERE MARKED AS EXHIBIT "489")

MR. MACLEOD: The next volume is a part of the submission put in by Mr. Meltabarger with his exhibits.

MAJOR LIPSETT: Is this volume complete.

WITNESS: No, I am sorry to say that it is not. We put in the tables but we did not have it to put in the charts.

(VOLUME 2 OF THE TEXAS COMPANY'S SUBMISSION PRESENTED BY MR. MELTABARGER HERE MARKED AS EXHIBIT "490")

MR. MACLEOD: And this large portfolio has also been changed.

MR. FRAWLEY: Mr. Meltabarger spoke to me last evening, really what it amounts to it is an easel, which made it an easy way of presenting this set of large maps and New York has asked Mr. Meltabarger if that can be returned and if it was given some other covering I see no reason why it should not be so long

as it is equally convenient to the members of the Commission. This is rather an elaborate affair with metal clips so that it can be stood up.

THE CHAIRMAN: If it can be kept together by something.

MR. FRAWLEY: Then that is understood, that it can be returned.

WITNESS: Mr. Ray said it was made specially and was of a special make for these charts and they need it in connection with that monopoly investigation down there.

Q MR. FRAWLEY: But they do not need the contents?

A No, just the cover.

Q And you will furnish something else which will hold it together?

A Certainly.

MR. FRAWLEY: I have just a question or two before you commence, Mr. Chairman.

Q MR. FRAWLEY: Mr. Meltabarger, I quite overlooked asking you something which I had called to your attention about the 30th of June and that is the specifications of the products which your company markets in Alberta and will you now file those please?

A I have not got those, Mr. Frawley. That is something which I hoped to get yesterday but I have not the specifications in the way that I know you want them. I have this information, that these gasolines respectively meet the following specifications of the United States

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Federal Government:

Sky Chief, Federal specification v.v. - m - 571 - a - for motor fuel "v" section F4, note 5.

Fire Chief meets the Federal specification v.v. - m - 571 -a- for motor fuel "v", and then our Valor gasoline --

Q That is 3rd structure?

A Yes, made to speficiation v.v. - G - 101 - a.

I might state the reason for putting it that way is, that some three or four years ago the Texas Company started out on an elaborate investigation of weather conditions over a period of 40 years all throughout the American Continent in each zone, they divided the United States into 23 zones, I believe, and started making what they called tailor-made gasoline for each zone, which is changed four times per year, summer specification, fall specification, winter specification, and spring specification, to provide a gasoline for that particular zone that is made to best meet the climatic conditions, the average climatic changes that have prevailed over a period of 40 years in that area and because of that any specification we might submit to you, for example, would not be the specification which is used in September and it is just a question now of what we might do in that respect.

Q Well, of course, Mr. Meltabarger, I would have to almost insist on something being filed because take this question of importations, the Commission cannot possibly intelligently consider the importation of your gasoline as against what I was talking about yesterday, 77 Gasoline or Mr. Trimble's

gasoline, that alone indicates a necessity for it and then in a larger way we have the Imperial, we know that your gasoline is selling in the same price structure, your Sky Chief, as the Imperial Ethyl and your Fire Chief in the same price bracket as the Three Star; well, the Commission should have, in my respectful submission, pretty complete data in the way of specifications to put down one beside the other, to see whether or not these companies are selling the same gasoline.

A Well, we did not have time. I intended to call Mr. Ray this morning and I didn't have time.

Q If you will take your time?

A We will get it.

THE CHAIRMAN: The witness will get it?

WITNESS: Surely.

MR. FRALEY: Mr. Chairman, it was called to my attention last evening by Mr. Meltabarger, after adjournment that the Exhibits "302" and "303" which were the specifications which the Imperial submitted, did not, in Mr. Meltabarger's opinion, disclose sufficient, or perhaps I should say, the requisite amount of information, but while there was some thought of having them uniform we will just have to leave it to you, Mr. Meltabarger, to put in what you think is sufficient.

A My statement in connection with that is this, if we gave you our specifications on the basis that this is made up on, I do not see how you could or any one could make any comparison between mine and the Imperial's specifications

because ours are based on an analysis of the distillation range from initial through the 10%, 20%, 30%, 40%, 50%, right on through and theirs is on a percentage basis.

Q You do not think that some one like Dr. Brown looking at Exhibits "302" and "303" and your specifications could give an opinion to the Commission as to how they were comparable?

A No, I do not see how they could. That is only my opinion.

Q Then it is idle to ask you to set them up as the Imperial sets them up in Exhibits "302" and "303", you simply do not do them that way?

A No, it is possible, I can say this that a complete run of distillation would have to be made in order, that is on that basis, in order to put our specifications on a similar basis.

Q I think we can file one of these so as to have it for Dr. Brown's information at least, you gave me this last evening, what is that, Mr. Meltabarger?

A Well, that is the form used to list the specifications on gasoline for laboratory reports and inspection.

Q Is it what would be ordinarily used by you and will be the form in which your specifications will be offered to the Commission?

A That is right.

Q MR. MACLEOD: That is for the United States Bureau of Stadnards?

A Well, that gives the specifications in the same classifications that the United States Government uses in the

Bureau of Standards.

Q Well, take one matter here, which we have heard a lot about, I do not see any Octane here?

A Well, there is a blank space in there.

Q Oh, that is fine. May I offer this now, Mr. Chairman.

THE CHAIRMAN: It willbe Exhibit "491".

(BLANK FORM OF SPECIFICATIONS PRODUCED HERE MARKED AS EXHIBIT "491".)

WITNESS: I would like, in connection with my comments on the specifications furnished by the Imperial, I would like to say that I have never seen them on that basis and it is possible that a chemist might arrive ---

Q Could read enough out of their specifications to make them comparable with this form Exhibit "491"?

A That is possible, I do not know.

Q MR. FRAWLEY: Well that is all, thank you. Mr. Macleod says you have a statement ready which would be comparable to Exhibit "314", pages 1 & 2.

(Witness produces same.)

MR. FRAWLEY: I would offer this statement?

THE CHAIRMAN: What is this?

MR. FRAWLEY: It is a statement of the number of office buildings, main stations, bulk agencies, service stations and so on of the Texas Company of Canada.

MR. MACLEOD: I think it is all contained in our previous material.

(STATEMENT PRODUCED HERE MARKED AS EXHIBIT "492".)

C. D. Meltabarger

WITNESS: I would call your attention to one thing, Mr. Callaway, who prepared this statement, shows the number of salesmen and supervisors and that is seven. Well, that is for the whole district and our office staff handles the whole district, while the Imperial has their setup on an Alberta basis and a Saskatchewan basis but we have not.

Q MR. FRAWLEY: In other words, the whole of Canada, so far as you are concerned?

A Yes, so we are operating differently in that respect/ than they do and there is no way of making a distinction.

MR. FRAWLEY: I think that is all.

Q THE CHAIRMAN: Mr. Meltabarger, what if anything have you to say about the fixing of a field price. We are concerned about that and we ask all witnesses that we think competent to speak about it, to give us their views?

A Well I would not consider myself competent to speak about that because any knwoledge that I have would be based on hearsay evidence, never having had any experience in that.

Q MAJOR LIPSETT: Do you allow an extra cent to the undivided dealer, Mr. Meltabarger?

A Yes.

Q Now I put, I think, to the other companies the question whether the policy might be changed so as to allow each dealer to handle any commodity he liked and save that one cent to the public; the point of view, I am just putting to you for consideration, is this that if the undivided dealer, if the divided dealer rather could

handle your products for a cent less than the undivided dealer, equally the undivided dealer ought to be able to do without that additional 1 cent margin for the benefit of the consumer and I would be glad to get your considered views on that whole thing; supposing it applied to everybody?

A Well, there are very few undivided dealers, for two reasons, first, because they want to get the extra cent and because they need it in their operations.

Q You mean there are very few divided dealers?

A Very few divided dealers, yes, and most of the dealers who are divided are dealers who for example, such as the Maclin Motors here in Calgary, who sell a very large amount of car equipment to the different oil companies. They are Ford distributors here and they sell to the British American and others and they consider that the reciprocal business relations, in other words, make up for that, I suppose there are some cases probably where these divided dealers actually do get a discount but entirely aside from that, secondly, there are some dealers who have practically a monopoly in a certain community and are divided because they want to take care of the demands of their customers. They figure that is worth their while, I presume, and then we have the marginal fringe of dealers who consider they have to have about everything the market affords in order to take care of the public demands and they are willing to sacrifice the small amount of revenue which this extra cent would give them, as being only a supplement of their other business, their gasoline business

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being a relatively small part of their revenue.

Now, from the standpoint of the public I cannot see how this revenue of this extra cent would be passed on to the public for this reason; the prevailing margin in this country is 4 cents per gallon to the dealer, especially in the larger centres. There are outside points where the dealers get a margin higher than that due to their extremely wide fluctuations in seasonable business and small volume and so forth and they get a higher margin by virtue of their business in that respect but where the dealers as in Calgary are getting 4½ cents and in Edmonton 4 cents, which includes the 1 cent per gallon, if the divided dealer were given the 1 cent and put on the Calgary basis it would make no difference with the undivided dealer; he would be on the same basis as he is at present and we would consider, and I think the history of the past shows, that the dealer has to have at least the 4 cent spread to exist and if he is not getting that it is because of lack of business ability or knowledge of what he, of the cost of doing business, and the advantage he thinks he gains by the reduced price, in extra volume or for some other reason, we just consider he is not running his business on a sound business basis and consequently he will follow the same trail that a great many others have followed in the past and in a short while will be eliminated by virtue of his inability to make a living in the operation of his outlets.

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The other side of the picture is this that insofar as the companies are concerned you take the dealer who has had 10, 15 or 20,000 gallons of business per year, if he were a divided dealer and split that business up between two or three or four companies, the deliveries he would be able to take from each company when he needs a load of gasoline, would be so small as to make the expense of delivery quite large, much larger than it is at present, per gallon, and if he got a full load and filled his tanks up, it would last him so long that his evaporation loss and other losses would be so great that it would more than compensate for the extra cent he would be getting if you raised him up to the same point as the undivided dealer.

Q Is not the divided dealer today working under all that handicap and is he not working on a 3 cent margin?

A I am speaking now, well some of them are, yes, some of them are but most of the divided dealers you will find are in communities where they set their own margin and they are getting their 4 cents or 5 cents regardless of the fact they do not get the 1 cent a gallon extra.

Q Is not one effect of these undivided dealers, that in some small points where there is only perhaps business enough for one station, you have two or three or four different stations at that point where each of the large companies can market a portion of their products?

A If each of the companies were marketing there that is true, but there are lots of places we would like to have

a dealer in but we have not and the putting of a dealer there is not justified by the volume or from other considerations and we stay out of that particular market.

Q You do not think that that is one of the causes of the great duplication of service stations and outlets all over the country?

A I do not.

Q And the amount of capital involved in that?

A No, sir.

Q Now one of the things we are asked about is whether the Government should take over the whole marketing of gasoline in the Province, I suppose the theory behind that suggestion is that they might do something like the liquor vendors, that is have one or two distributing points in each community according to what is the necessity for the supplying of gasoline, what have you to say about that?

A I covered that quite in detail in my brief. Of course, our considered opinion, based upon the experiences that we have encountered in the past, is very strongly against that. We feel that it would not result in a reduction of the price to the public. On the contrary it would result inevitably in an increase in the price. We do not believe that the Government can market gasoline as cheaply as we can.

MR. MACLEOD: I do not know whether you know anything about the liquor vendors, has that resulted in a decrease of price.

Q MAJOR LIPSETT: I am not suggesting that

but merely as a sort of idea of what the suggestion was. It seems open to consideration, Mr. Meltabarger, as to whether all these various outlets are not a great duplication and an additional expense and it is on that that I would like to have any information you have?

A May I just make these observations which might illustrate the point. We entered this market in 1927 or 1928.

Q MR. MACLEOD: 1928?

A 1928 and we found a situation existing where one company had a complete monopoly with the exception of the small amount of gasoline the Regal refinery was turning out in Calgary and the little gasoline that was being made at Coutts, I believe by the old Maple Leaf Company before the Imperial Oil took it over. I think they were going on at that time. I was not here. We entered the market and we found the prevailing price structure, tank wagon and retail price. We have since that time in competition with the established marketers here expended hundreds of thousands of dollars in service stations and bulk plants to get them established. We have never sold gasoline higher than it was at the time we came into the market. In other words, we just met the situation as we found it and during those years the price of gasoline has constantly declined and we have marketed under those conditions. We are losing money it is true but that is beyond it again, looking at it from the social standpoint rather than the materialistic, that has been a gain to the public because the investment

in money which we have put in here has meant additional returns in taxes to the public, to help bear the burdens of Government, it has meant employment for hundreds of men in the building of garages and so fortn and the purchasing of the materials and it has other social benefits which, it seems to me, have been very material without any additional cost to the Government, I mean to the people. In fact I think a proper analysis of the situation would show that our competition has been partly responsible for the reduction of the price of gasoline in the community, in the Province of Alberta. Now if you take the present situation as it exists and we will suppose some other marketer came into this market, the Shell Oil Company for example, and found it necessary to establish an entirely new distribution system, including service stations and so forth, they would have to meet the present marketing price setup. They could not increase the price and I cannot see that, regardless of how much money they would invest, it could ever possibly have anything but a downward effect on the price.

Q Well take that case which you gave, that instance of the Shell, if these 100% dealers were not tied up and they could sell to them, they would be able to get these dealers to handle their products, without this additional enormous capital investment, could not they afford then to sell their gasoline so much cheaper to the public if they did not have to make this big capital investment and were able to get an established dealer to handle their products today?

C. D. Meltaberger

A It would make no difference in the dealer who is established for example, across on the corner here. He has his taxes and his capital investment, depreciation, labor costs and so forth. His expense is the same so he will have to have the same margin, regardless, or approximately so; if all of the investment that the Shell made had to be absorbed by gasoline it might have a small affect on the marketing expense. Actually we do not consider that our service stations are an expense but we think that we can market cheaper by virtue of the control which we have in our own investments, in our own service stations, than we can if we had to go out into the market and secure independent dealers.

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Now, there is another viewpoint there. Individuals and firms and corporations vary in their ability and in the manner in which they do business and in a free competitive market the efficiency or inefficiency of two people or two firms or two corporations can be measured in the way, can only be measured, I should say, by saying as compared with B, A is efficient and as compared with A, B is inefficient. And we might say both A and B are inefficient as compared with C. Competition is naturally a battle between efficiency and inefficiency and the inefficient must ultimately equal the efficiency of the efficient or disappear from the market because competition will put him out. Now, are we going to determine before the race is run who will win and not run the race or are we going to let whoever wishes in his judgment to enter into this race and invest his money in stations if he wishes to compete on an equal basis with the other men and take his chances on succeeding or failing and if he fails he is out of the picture, or just say "No, you cannot get into that business at all." There are just two alternatives. We have to decide on a free competitive market, and free enterprise as desirable or whether it should be controlled.

Q Is that quite the point, Mr. Meltabarger. You take the Shell Company, the question of their efficiency is, perhaps, established, that is, whether they are inefficient or efficient. The question is whether the Shell Company coming into this market on the one hand either getting their product marketed by the existing distribution dealers and on the other hand having to spend two, three, four or five million dollars for setting up a complete

new distributing system. Could not the Shell Company sell gasoline cheaper to the public if they avoided that capital expenditure of three, four or five million dollars. Won't they sell cheaper if they avoid that than if they have to make that investment?

A Well, here, you might put it this way. Why could not the Imperial Oil sell cheaper than the Shell. The Shell has to meet the Imperial's competition. They have to meet all competition and they have to take a chance that meeting that competition they can make their products cheap enough, of equal quality or better, and market them at high enough efficiency so that they can get underneath that price umbrella and make a profit or they will have to take a loss. One of the two. They have to take the chance. They may find ways and means, and that has been the history of the competitive situation. For example, just a few years ago Turner Valley would have been impossible because drilling equipment was not adequate to drill wells deep enough to reach the producing horizon in Turner Valley. But competition found a way. The gamble for oil and the struggle for finding new reserves found a way of drilling deeper wells and provided the equipment to do that. And marketing is the same thing. A service station I would have built five years ago I would think was inadequate to-day and it would be inadequate. Our conception of things changes as we gain experience. We now hear that the British American are embarking upon a new policy of distribution, which in their estimation will enable them to cut the price on their products and give more efficient service. It is that continuous competitive struggle that

makes for progress.

Q Assuming that the Shell Oil, the instance you gave, could today go in under the Imperial umbrella and sell at the Imperial price, which obviously they would have to do, and make a profit, could not they cut that price to the public and still make the same profit if they could avoid the capital outlay of two or three or four or five million dollars on the new set-up for distribution?

A You mean would that represent a saving to them. They might find they must get in here and secure sufficient gallonage away from the Imperial Oil to enable them to cover their refining and marketing costs and the result might be that for a period of years they would have to suffer a loss. While if they could come in and immediately establish a distribution system and secure enough volume to cover their manufacturing and distributing and overhead costs they could market and at least they might suffer a loss over the years of development or probably they might make a profit. We have not been able to do so yet.

Q Supposing dealers were free, could not the Shell come in and offer them 2 cents reduction on the present price?

A No.

Q If they did not make this capital outlay?

A No, because that capital outlay would not cost them even a fraction of that, if they could get sufficient volume. We have such a small margin, as we demonstrated in my brief, we have such a small margin of controllable costs to operate on, that it is less than, if they are figured correctly, it was less than 2 cents a gallon. The others are all fixed by the Government and by the railroads for

freight rates and taxes and so on. The controllable costs are so small that there is not anything like---it is fractions of cents in savings that comes in rather than large amounts.

Q Your view is it does not make any appreciable difference whether they had to put up 2 to 5 million dollars making that distribution system or whether they could simply give the benefit of that to the dealer and through the dealer to the public?

A Well, understand, I do not feel that they would come in and put anything in like that. They have been in British Columbia for several years and they have a very small investment comparable to their own distributing facilities. We have too compared with our total. Our total investment is extremely small, as you see. And aside from their refinery possibly half a million or a million dollars would be the maximum they would ever invest in facilities. That is just looking at it from our viewpoint as marketers and we compete with them in many markets.

Q Just to put it in another way. I think I have got your views on that. Why should not the dealer be able to go and buy gasoline the same as he buys cigarettes and sugar or anything else he buys, and the same price to each firm without tying him up?

A I do not know that cigarettes are the same price. Practically all commodities, competitive commodities vary, because the tastes of people differ and one cigarette uses different kind of tobacco than another and maybe there is differences in cost, not in the manufacturing but in the commodity itself.

Q But I assume that every retailer in Calgary could buy any

brand of cigarettes without being told he must not handle some other brand?

A I cannot say as to that. I do not smoke myself and I do not pay any attention to it. I think gasoline is a little different situation than cigarettes. It is the major commodity of a garage and service station. Cigarettes is just a minor department or item in the thousands of items that grocery stores and drug stores and so forth handle. Now, may I just make this observation. I think I made it before. That in our case and in the case of most independent dealers who are garage operators gasoline is just one of the, it is one of the services. Gasoline service is one of the services that they render and we cannot reasonably allocate any very large portion of our premises because they only use a small section of the premises, and the cost of maintaining those premises, to gasoline. It is because of the service and the evaporation losses and the investment that they have in their equipment there and the small profit that they are trying to make that takes up their margin. The rest of their premises is devoted to automobile sales and repairs and lubrication and to washing and sales of accessories, sales of tires and many different things. Gasoline can only be charged with a very small portion, and the oil companies are getting more and more into the sale of additional products than gasoline. We make and sell some 400 products.

Q MR. MACLEOD: May I just suggest to you and ask you if it may be a fact that if you had a system of divided dealers that your costs would be transferred to soliciting dealers?

A Our costs would be very materially increased by the

necessity of competitive solicitation. It would be very materially increased by the extra cost of delivery to these dealers in smaller quantities.

Q If you had a dealer who handled five or six brands of gasoline naturally one would favour one and one another? I presume?

A Yes, and he would have five or six times as much investment in equipment.

Q And you would have to transfer your costs of trying to push that product to the public, you would have to transfer it to pushing it to the dealer, there would be state of competition existing there?

A Yes. There is another factor of that from the standpoint of the public too. If all gasolines were identical and all motor oils were the same and there was no preference, that would be one condition. But when you have a divided dealer handling many products, I have in mind one particular situation that existed down in Spokane, Washington, a few years ago where a dealer had about 12 different brands of gasoline. He was selling one quite inferior product and he had a very long hose on that pump. He made a larger margin on it and he sold it at the same price. Now, regardless of what pump you drove up to unless you specified the particular brand he would pull the hose from this cheap gasoline pump over and fill your tank. There is always that danger of substitution. I am speaking now from the point of view not only of the public but of the supplier who sells. It is just one of the factors to be taken into consideration.

Q MR. COMMISSIONER LIPSETT: Yes, that might be one difficulty although I do not suppose you would legislate just for the

criminal only who was defrauding the public on that?

A Yes, that is true.

Q On the general lines of the general investment Mr. Macleod mentioned, instead of having four or five different stations all close together, one station with four or five pumps would do the whole thing if dealers were free to buy?

A In some communities that is true. It would not be true in cities and towns, because in most of the towns the pumps are curb pumps and inasmuch as the gasoline business is more or less a periodical thing, certain hours when people buy gasoline, it would be impossible for one curb pump, unless they had them lined up for a very large space, one curb outlet,for example, to serve the public more efficiently, they would lose more in waiting time and in the cost of the gasoline consumed while they were waiting than they would save. Then you would have the congestion problem, which would be a material factor. Especially would that be true in the cities unless you relegated the gasoline pump to the side-streets rather than on the main arteries of travel, and then you would have the inconvenience problem as far as the public is concerned.

Q MR. FRAWLEY: There was something I should have asked you. That is the Artic Oil Company's price. I think that I did call to your attention that the price at which the Artic Oil Company buys its gas from your company results in giving that company a lower laid in cost on its products than your own company, the Texas Company of Canada, and that seems to be somewhat anomalous. Perhaps you would discuss that very briefly?

A We were selling Artic Oil Company on a tank car basis at

Coutts, which gave them a margin of I think 4 cents a gallon, about the average margin. And they received a competitive offer from a local company offering them 1½ cents a gallon additional margin to what we were giving them and we either had to - well, we had three distributors on a similar basis and we stood pat as far as one of them was concerned to see if they would actually go through with that offer and they did and they took them away from us, although we had a chance to hold them at a half a cent less than they were offered. But we had then to decide whether we were willing to put all that gallonage overboard and notify the competition that all they had to do was to beat our price to take business away from us or to stand pat. So we raised their margin. Instead of selling them on a tank car basis we sold them on an average marginal basis f. o. b. delivery point. So far as Sky Chief and Fire Chief are concerned. 3rd grade gasoline we continued to sell them at tank car price at Coutts and they marketed that product on a margin of some 3 cents per gallon.

Q Is that all you have to say about that. Messrs. Peat, Marwick & Mitchell, who made an examination of your records, have made a report which will be in due course put into evidence, but I want to call your attention to it now, so that both you and Mr. Macleod can have something to say about it if you wish. That report showed - true it was made for the year 1937 - but it showed on every gallon of gasoline except, I think, Ethyl, that was sold to the Artic Company, money was lost. Actually it was a total loss, that is the Artic operation was a total loss as far as the Texas Company of Canada was concerned, and a very

considerable one. I just wondered why you felt you were to meet competition to give that jobber a price without any regard to your own benefit, a total disregard of your own profit position, that you would give that jobber a long margin just because somebody else offered it to him. I wonder what your comments are about that. Does not that keep a jobber in business regardless of all ordinary economic considerations?

A He would have stayed in business regardless of what we did.

Q Well, you do not know?

A He would have had a larger margin to operate on.

Q Anyway that is what you say. It would not have mattered. If the Maple Leaf Oil Company had offered him 3 cents instead of 1½ cents perhaps you would have given him the 3 cents?

A We might have but I doubt it.

Q We were talking about jobbers the other day and I suppose we might get some important discussion about jobbers with you. Why they are there and so on. That seems to be rather a glowing instance of a supplying company maintaining a jobber in existence beyond all that would seem on the surface to be sensible?

A Well, there are a lot of factors that are not obvious on the surface in a situation like that. In 1938 on Fire Chief gasoline, when you averaged the price we received as against the cost of the product to us, throughout the Province, and that takes in southern Alberta and all, our loss was 86/1000 of 1 cent per gallon. Sky Chief it was 6/1000 of a cent per gallon. So it is a very small loss.

Q How much in dollars and cents did you lose on the Sky Chief you sold?

A I cannot tell you how much we lost. I have the total revenue per gallon and the cost per gallon figures only. That is the average of the total.

Q Your figures are all per gallon?

A Yes, all per gallon;

Q Well, we have other companies, the British American and the Imperial supplying jobbers and there is no indication yet from the evidence I have that they have actually lost money on what they supplied to the jobber. But in any event, we have an instance now where you are supplying the jobber and losing money?

A A small amount of money, yes.

Q You have another jobber, another principal jobber and that is the Lion Oil Company. Are you losing money on that operation too?

A No.

Q Because you are charging him more than you are charging Artic?

A Yes.

Q For the same product?

A Yes.

Q Delivered at the same places?

A I would not say the same places, some of the same places.

Q If he happened to be there you would charge the Lion one price and the Artic another?

A Yes, we have had a chance since then to take on a great deal of business which we have turned down. In order to break even we would have had to get a higher price and our refinery has not been able to supply the product or was willing to supply it at that price.

C. D. Meltabarger.

Q The only figures we have on the Artic operations or any of your jobbers is for 1937. Would you be good enough to give Mr. Cottle an analysis or let him make an analysis of these two jobber contracts?

A We have no contracts.

Q When I say "contracts", these two jobber operations in 1938?

A Surely.

Q Thank you.

THE CHAIRMAN: What progress are you making in connection with refinery costs and so on of the Texas Company?

MR. FRAWLEY: Not a great deal of progress Mr. Chairman. I placed the whole matter before Mr. Macleod some - I am sorry I have not got my file - but just about, I can tell you, on or about the first of the month, I think. Perhaps a little earlier. I placed before Mr. Macleod the suggestion from Mr. Nolan, acting for the Imperial Oil, which was what I might call a qualified consent to the information going in in camera. You will remember, of course, that the Texas Company stressed that and objected to putting that information in except it went in in camera. I then requested the persons chiefly interested, Mr. Nolan and Mr. Harvie and Mr. Plotkins too, to consent. Mr. Plotkins gave his consent and Mr. Nolan then gave me what I might call a qualified consent to the information going in that way provided that it should also be made available in camera to his clients. That went down to New York. Mr. Macleod sent that down to New York and he has received, as I understand, no word whatever with respect to that. I also asked

Dr. Frey to be good enough to take it up with the Texas Company when he went back to Washington. He was fortunate in seeing Mr. Ray in Washington last week and he tells me he was not able to get Mr. Ray to give his consent. Mr. Ray said he would write me about it. Now, I hope Mr. Ray is writing me favourably. The situation is just in that state and it is not particularly satisfactory. It is the delay that is giving me some concern because, as you know, there is a lot of work to be done by Mr. Cottle and Dr. Frey before they can make any presentations or they can, as they say, fully and completely analyze the Texas Company. As I said before, my feeling for the necessity or my reason for urging so strongly for these Texas figures being made available is, in my respectful submission, it is unable to get the true nature and effect of the Texas operation in this Province without knowing these costs. You remember yesterday we stumbled on a piece of information that the Texas Company of Canada does not know what the company from whom it buys in turn itself pays to the refinery.

THE CHAIRMAN: What do you feel about the progress being made, Mr. Macleod?

MR. MACLEOD: I wrote Mr. Ray and I have had no reply. Personally - of course, your Lordship has expressed an opinion on the advisability - but I do not see it really enters into this Inquiry at all any more than if you would investigate the Lion Oils, for instance, or at least the Artic Oils. You would have no occasion to go back of what they pay. It is true we are connected with the Texas Company, the Delaware Corporation, connected by reason of their being common owners in the refinery

company. That we pay a certain price which the evidence shows has been fixed for us by the Dominion Government and I do not see why we should go back further than that unless Mr. Frawley wants to use the position we are in, being here, to get information on the United States refineries to measure up the local refineries, and I do not think that is a fair advantage to take of our position.

MR. FRAWLEY: That is purely secondary. It might prove useful in two ways. Frankly, my position, Mr. Chairman, is, as I see it now I will have to make a submission in the end that nothing that the Texas Company has said is of any particular value to the Commission. That is unfortunate. I regard that surely as unfortunate. They are a great corporation and I certainly was hoping they would contribute a great deal to the information we required. We have had a lot of general and useful information but in the end I will have to make a submission to the Commission, which Mr. Macleod will strongly counter - I will have to make a submission that because of this missing link there can be no true appreciation of what the Texas Company is doing in Alberta at all.

MR. MACLEOD: I do not see that. We go back to the very Genesis of our operations. We buy at a price, and we give the price. If we bought from another company, another refinery in Montana or elsewhere in the United States, or elsewhere in the world, I do not see that the situation would be one bit altered.

MR. FRAWLEY: I do not see it is very important, when you are able to sell at a loss regardless.

MR. COMMISSIONER LIPSETT: Is there any operation of

buyer and seller or are you simply buying from yourself under another name?

MR. MACLEOD: We are not buying from ourselves. We are a separate corporation. We are buying from the Texas Company of Delaware. We buy lubricants.

MR. COMMISSIONER LIPSETT: From a company which owns you altogether?

MR. MACLEOD: No, we are both owned by the same corporation.

THE CHAIRMAN: Well, without entering upon a discussion of it I only hope, Mr. Macleod, that some way will be found in which you can give the information required. After all, Dr. Frey is quite independent and quite expert and he wants it, and we would be sorry to think that such an excellent presentation as you have made would be rendered futile by the lack of some further information. It is a matter, after all, which you will have to consider.

Q MR. MACLEOD: I would like to ask Mr. Meltabarger one or two questions so as to clarify for the Commission a matter that we have heard a great deal of evidence on, but it has been rather straggly. It is the question of the dumping duty. Evidence has been spread over half a dozen different sessions. But just to clarify. Mr. Meltabarger, I understand, as far back as 1932 when you would be an importer from Montana, you took up through the Customs experts at Ottawa the question of the price at which you would buy in order to avoid the imposition of dumping duties, that is so, is it not?

A That is correct.

Q And the correspondence through this Ottawa firm is set out in your brief at pages 753 and the following pages?

A Yes, Sir.

Q As a result of those negotiations the Customs Department of the Dominion Government fixed the prices on which you might export without becoming liable to dumping duty?

A That is correct.

Q And that basis was the cost of crude oil in the Cutbank field?

A That is right.

Q Ever since that time you have, I understand, and it is a fact, operated on that basis?

A We have.

Q And there have been changes from time to time, all downward, I believe, in your refinery billing price?

A Correct.

Q But are all those based upon the varying costs of crude?

A They are. All billing is in accordance with the basis fixed by the Customs Department at Ottawa.

Q You never have, I presume as a matter of fact, been asked to pay or have paid dumping duty?

A We never have.

Q And in each shipment throughout these years that comes in the invoice and the affidavit prescribed, which were filed yesterday as an Exhibit, - the form of invoice which was filed yesterday, I forget the exact number, that has in every case been filled in?

A It has.

Q And it has gone through without the imposition of any dumping duty?

A Yes, Sir.

Q As a matter of fact, do you pay the same price at which the vendor in Montana charges to similar dealers?

C. D. Meltabarger.

A I am advised so, I have no knowledge of it myself.

Q I presume you know nothing at all about the question of what other importers, whether they import under conditions which should render them liable to dumping duties and if or whether it does or not?

A I do not.

Q With regard to your 3rd structure gasoline, will you tell me what proportion of that product which you use in your business was imported from Montana?

A A very, very negligible quantity. Only to Cardston and Warner, Alberta, I think those are the only two points.

(Page 11,571 follows.)

Q And all your other stuff which is used is bought locally?

A Yes.

Q Now we have heard a great deal of evidence about the extremely low price of that which comes into Alberta, what is your experience, is it a fact that you buy here, does that indicate that you are buying----

A We cannot import it at the same price as we can buy it here.

Q That is you buy cheaper?

A We buy it cheaper than we can import it.

Q And that is the reason why a large portion of your product is bought here?

A Correct.

Q Now what is your company's position as to the suggestion which has been made to this Commission that no further licenses be issued, that the industry be frozen at this stage, do you think that it would be an advantage from the point of view of the consumer?

A It would be very nice for we who are already here from our point of view but from a social point of view I think it would be a mistake.

Q And from the cost point of view of the consumer?

A Yes, I think from a social point of view it would be a loss to the public and to the Province of Alberta.

Q Why?

A It seemed to me that a fair analysis of a competitive system would arrive at the conclusion or lead to the conclusion that free competition is one of the essentials of the proper operation of that system and we say that Christianity has failed and the answer is that Christianity has never been tried and we say that the competitive system

has failed and we say it has been so hampered by rule and regulation that it has not been able to operate as a free competitive system and it seems to me that, take a man for instance, if you hobble him, he certainly cannot run a good race and the daily contact of competition, it seems to me, is essential to progress. You ask the individual who runs the service station if his service station is essential and he says "to me it is, it is all I have". You say, if that station is not selling Texaco products, "Is it essential to me and I would say no, no," looking at it from one point of view but it may be essential to society inasmuch as it will keep me on my toes or keep Texaco on its toes competing with that situation and it will establish standards which we have to meet perhaps and it will result in the long run in lower prices and greater efficiency in operation than if I had a monopoly in that particular community.

Q Now a great deal of evidence has been given about the uselessness of the jobber, have you anything to say about that?

A Well I do not know, it is generally considered that the jobber has a place, he certainly has this, certainly this much can be said about him, he is a marketer, a potential refiner perhaps, but he has to market in competition with the refiners and marketers of intregated companies at the price they sell for or not more than the prices they sell for and he has no other revenue as a rule to support his market and the result is that his greatest ingenuity is used in competition to try to market, to get under the price canopy and market at a profit. It seems to me he performs

a valuable service in the competitive picture in that respect. He may set the pace for competition in other words.

Q MR. FRAWLEY: You see some value in going into say the town of Lacombe and having the Imperial Oil Company, its jobber the North Star, its jobber the Canadian; the British American and its jobber the Great West, the Texas Company and its jobber the Artic, and I am just saying this hypothetically, you see nothing wrong about that, that is not competition gone mad at all so far as you are concerned?

A Well I will say this it gives employment to quite a large number of men, it has given employment to quite a large amount of capital and if it does not result in an enhancement of price to the consumer then the public is benefitted or if the enhancement in price has not been greater than the subsidiary benefit to this employment of capital and labour, then the public has not lost anything.

Q That is what the Commission is here to find out, whether it has any reflection in the price. Now, Mr. Meltabarger, just one further question on this question of dumping, looking at Exhibit "490" and at the correspondence, let me ask you this, the International Refinery at Sunburst runs both Cut Bank and Kevin-Sunburst crude?

A Yes I believe so.

Q And at times it is running, the majority, the greater part of the run has been Cut Bank and at other times the greater majority of run has been Kevin?

A The greater majority has always been Cut Bank, I mean Kevin.

Q The greater majority has been Kevin?

A Yes.

Q But you have production in Cut Bank?

A Yes.

Q And you have been running Cut Bank?

A Some.

Q Yes, I merely call attention to that because I find the result of this correspondence is summed up in the letter at page 760, from the Commissioner of Customs, somebody for the Commissioner of Customs to your Customs Agent in Ottawa in which you say that you are, in which it is said,

> "You are advised that the contents of this letter "have been reviewed, and it would appear, in view "of the fact that there are no posted prices for "Gasoline in the State of Montana for sales in "tank car quantities, the suggested values in the "letter of the Texas Company, based on the posted "prices of Kevin Sunburst crude oil would appear "to be acceptable."

However you would say there has been no revision of the situation since 1932 when this arrangement was entered into?

A Not that I know of.

Q And you are still carrying on at that rate?

A Yes. I might add to that however, that regardless of the amount of some Cut Bank crude as you have already pointed out, it is a competitive field in Sunburst and the prices, the field prices are comparable, based on the recoveries possible and the quality of crude, gravity and so forth, so you have no difference.

Q We have no field prices in Cut Bank posted so far as we are aware, that is true is it not, I mean do you know that?

A Well I do not think that is true.

Q Well, at least there was some difficulty, it would appear there was no agreement, let me put it that way, you were not really posting prices in Cut Bank. However, so much for that. We have been told, Mr. Plotkins suggested the other day and I think we made a note to have you get that information, now that it has been mentioned, that your refinery at Cut Bank posts in the lobby the tank car price, we are not certain at all, that is something we were to be informed about, why that is done, the purpose of it, but if it is done it would seem---

Q THE CHAIRMAN: Is that done?

A Not that I know of. We do not, the International Refinery Company does not sell gasoline except to the Texas Company of Delaware.

Q MR. FRAWLEY: It used to be done but it may not be done now. You see in 1932 it is stated----

A You might find that under the N. R. A. period the refinery was required under the petroleum code to post prices at which they would sell if they sold.

Q It was Mr. Saunders that we asked definitely about this and will you be good enough to check up with him about that. Mr. Plotkins brought that to his attention and he was to find out. Now are there any other matters that have been touched on that we wished you to clear up, that I have not brought to your attention this morning?

A Well if the stenographer will not take this, you asked me for the portion of crude oil purchased and produced.

Q I asked you, oh I would like to have that, anything which I overlooked asking you, Mr. Meltabarger, I would be very

glad to have you put it on the record?

A I would just like to read you what Mr. Ray has to say about this.

Q Will you first state what the question was that was put to you, I mean the substance of it, I think I know now what it was, it was the proportion of crude which was run to stills that you owned as against what you purchased or which you produced as against what you purcha.ed, if you agree that that is it, I do not care about the precise question, Mr. Meltabarger?

A I should like to answer that by reading this "All the "crude run to stills by International is purchased crude as In- "ternational does not engage in producing operations,----

Q Just to clear the record then what I asked you to obtain was the percentage of crude purchased as against the crude produced that was run to stills in 1938?

A Now if the intent of that question is to ascertain the percentage of crude run, that is produced by the Texas Company, a Delaware Corporation, it is impossible to state exactly the percentage as all crude, whether produced or purchased, is run into same tank. Further some crude is sold. Obviously it would be impossible to ascertain definitely of the crude left and run to stills what part was produced by Texas Delaware and what part was produced by others. In respect to production one must also take into account the fact that of the crude run by Texas Delaware a part is working interest and a part is royalty oil. Royalty oil is of course purchased oil. Asuming that production by Texas Delaware and purchases from others were included in International Refinery runs in proportion to receipts Texas Delaware

net production constituted in 1938 approximately 49% of the crude runs to fuels, wait a minute, crude runs to stills at Sunburst. In 1936 and 1937 the percentage was not that high. Our refinery superintendent computes that in 1938 approximately 56% of crude run to stills at Sunburst was produced by Texas Delaware but we do not know upon what assumption this computation is based.

THE CHAIRMAN: Any other questions? Then thank you, Mr. Meltabarger.

MR. FRAWLEY: Mr. Porter is here representing the North Star and they will now make thier presentation to the Commission.

MR. PORTER: I will call Mr. Havelock, Mr. Chairman.

(Mr. M. M. Porter, K.C., appeared for the North Star Oil Company, Limited.)

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ALEXANDER HAVELOCK, having been first duly sworn, examined by Mr. Porter, said:

THE CHAIRMAN: Are you offering this as an Exhibit, Mr. Porter?

MR. PORTER: Yes.

THE CHAIRMAN: It will be Exhibit "493".

(BOOK OF FINANCIAL STATEMENTS PRODUCED AND MARKED EXHIBIT "493").

MR. PORTER: This is the material which was brought by Mr. Havelock, who is the company's accountant, at the request and I think in collaboration with Mr. Cottle.

MR. PORTER: Mr. Chairman and I propose to ask Mr. Havelock to go through and explain to us what

each of these statements represent.

THE CHAIRMAN: Very good.

Q MR. PORTER: You can start, Mr. Havelock, with your statement and go through it sheet by sheet, explaining just what is contained in each of them and the set-up?

A Very well. The first sheet consists---

Q THE CHAIRMAN: Well it is suggested before you go into the sheet that you tell us about the operations of the company?

MR. PORTER: Well, Mr. Chairman, Mr. Clayton is here. He is the manager of the company and has been for a good many years and after discussion with Mr. Frawley we thought perhaps it might be better if this information were in your hands and explained and then Mr. Clayton can say what is to be said about the company and the method of its operation.

THE CHAIRMAN: Very good.

WITNESS: All right. The first sheet is a summary of our investments in Alberta showing the original costs and values to-date; showing the number of bulk plants operated, the number of barrel agencies and also the number of service stations. It shows the amount owing us by customers and stock in trade in Alberta. That is a general summary.

Then the next two sheets show our sales in Alberta, the total company, and in Alberta. It shows the proportion of Alberta sales to the total company. It shows our total gross profit in total and in Alberta, profit per gallon. It shows our expenses in total

and as allocated to Alberta. It shows the cost of marketing per gallon and then it continues on with other expenses which ordinarily are not considered marketing. Then it winds up with a net surplus for the year 1938. I might mention that our books are not kept by Provinces nor by products and in arriving at Alberta profits we allocate it on the percentage of the Alberta sales to the total. The office does not keep a record of gross profits per product so that gross profit per gallon shown here includes profits on lubricating oils and light goods, and our proportion of lubricating oils to light goods is about 1 to 25.

We then show the details of sales by products on page 4.

Q MR. FRAWLEY: I think we should stop now and mark the pages. I think the witness will find them more useful, as we have done in the other cases, if you agree, Mr. Chairman?

THE CHAIRMAN: Yes.

MR. FRAWLEY: Now if you would do the paging yourself, Mr. Havelock, probably?

A Well the first page appearing in the book we will mark that one and consecutively as they run in the book?

Q Yes?

A The next two dealing with profit and loss are 2 and 3; number 4 is the details of sales by products; numbers 5, 6 and 7 shows our investments in service stations in Alberta; numbers 8, 9, 10 and 11 shows our investment in bulk plants in Alberta with all details as enumerated; numbers 12, 13 and 14 show our investment in barrel stations; number 15 is our audited annual report for 1938.

I have with me additional data

which we can supply you with if you are interested in it but what we have marked so far we feel is the essential summarized picture of the operations.

Q MR. FRAWLEY: Now you have given Mr. Cottle separate data to this Exhibit?

A I have.

Q Exhibit "493"?

A Yes.

Q Which probably will be necessary for you, Mr. Havelock, to file, we will ask you to file that supporting data so that it will be part of the record and it can be used then by Mr. Cottle but I would suggest that there be a conference with Mr. Cottle so that he can pick out the supporting data which he thinks the Commission may need and then that can be filed?

A As a matter of fact Mr. Cottle has an exact copy of the book we are working on.

Q Is this all that Mr. Cottle has?

A He has additional information which we supplied earlier in the year.

Q And it is that particularly that I am thinking of, that might come in as a separate Exhibit. You have only come this morning and you have not seen it?

A No, I have not.

MR. PORTER: I understood from Mr. Cottle that the material in this Exhibit is what he wanted, after his examination.

MR. FRAWLEY: That is quite so but it is a question of whether or not this is complete.

A I will confer with Mr. Cottle.

Q I think I can ask you just a few general questions about it, you are not, Mr. Clayton is here, the general manager of the company?

A Yes.

Q And he will make a general statement with respect to the nature of the company's operations?

A That is right.

Q And its history and so on?

A That is right.

Q You are a jobber from the Imperial Oil?

A That is right.

Q Exclusively?

A Well we also refine gasoline in Winnipeg.

Q But I mean so far as the Province of Alberta is concerned?

A Correct.

Q You bring in nothing from any other Province except lubricating oils?

A That is so.

Q You market petroleum products generally?

A That is right.

Q You purchase what are called "White goods", gasolines and distillates, deisel fuels and so on, you purchase those entirely from the Imperial Oil?

A That is right.

Q You also market lubricating oils and greases and where do they come from?

A Well from Winnipeg and some from the Quaker State Corporation of Canada and some stocks are purchased from the Imperial and some are purchased from across the line from various suppliers.

Q But insofar as what you market in Alberta, some of them you

purchase from the Imperial and some you purchase elsewhere yourself and bring them into Alberta and market them?

A So far as greases are concerned we make all of it in Winnipeg and ship it into Calgary in tank cars. The Quaker State Motor Oil is bought from the Quaker State Corporation of Canada and shipped into Calgary and are distributed from here. The other two brands of oil are bought from the Imperial Oil and miscellaneous industrial oils and odd oils are blended by us in Winnipeg and shipped up here in carload lots.

Q Yes, then you also operate, you also wholesale accessories to your dealers?

A No we do not.

Q You do not do that at all?

A No.

Q If the North Star dealer is handling accessories, that is his own operation?

A Purely.

Q Now have you in here the prices which you pay, the schedule of prices which you pay to the Imperial?

A It is not there but I will submit that, and as a matter of fact Mr. Clayton will be dealing with that so it can be submitted at that time.

Q That will come in through Mr. Clayton?

A Yes.

Q Any question that I might like about your balance sheet and your profit and loss statement can be asked of you or Mr. Clayton?

A I can answer that?

Q Now have you an up-to-date report from your auditors,

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George H. Touche & Company?

A It is there and it is number 15 which is the audited report of the company.

Q That looks like a rather condensed printed annual statement?

A That is a transcription of their report.

Q That is their whole report?

A Yes.

Q Simply as printed and distributed?

A Yes. They do make some statements to supplement it but they are of no importance.

Q The report required by Section 114 of the Company's Act, let us see, let me show you a former one which I had, Mr. Havelock, an old one of 1934?

A That refers to the Falcon Oils Limited, a small subsidiary in Winnipeg which has since been closed out.

Q MR. FRAWLEY: I do not mean that but attached to the financial statement itself, the auditors generally make some comments. Now perhaps it is all here, it is all here at the bottom of this sheet dated Winnipeg, the 28th of February, 1939, that is the only one in any event you did receive from your auditors?

A Correct, that is the report and the unqualified certificate.

Q Now where are your outstanding accounts, the accounts payable?

A On the schedule, Statement 1 on the face of it.

Q Liabilities, under liabilities and capital, current liabilities, accounts payable $1,873,111.41?

A That is right.

Q I am reading from the printed statement?

A Yes.

Q Now does that appear somewhere else in your Exhibit, is it broken down at all?

A No it does not but I will give you the break down of that.

Q Can you file that as a separate Exhibit?

A Yes.

THE CHAIRMAN: All the working papers can be put in as one Exhibit when Mr. Cottle knows what he wants.

MR. FRAWLEY: Yes, but that is the only one I want to ask something about now.

Q MR. FRAWLEY: Now can you have a break-down of that and give it to us?

A Yes.

Q It is understood it will be filed later. Can you tell me, of that amount of $1,873,000 what amount represents your unpaid account with the Imperial Oil?

A The Imperial Oil account according to our books, there is a slight difference between this, on account of the items in transit, $1,847,603.64.

Q Now let me get that, out of the total accounts payable of $1,873,111.41, the account payable to the Imperial Oil is $1,847,603.64?

A Yes.

A. Havelock

Q Now that represents the amount that you owe the Imperial Oil for goods purchased?

A Yes.

Q It has been running about the same proportion for a good many years, has it not?

A No, it was quite small prior to 1929 and it jumped up in 1929 and 1930 and it stayed about that since then.

Q When I say a good many years I was thinking of five or six or seven years. What you say now is it has been running about that since about 1930?

A Yes.

Q Because in 1934, that is the financial statement which the company sent to me in 1934?

A Yes.

Q Out of the total of accounts payable of $1,882,865.70 the amount payable to the Imperial Oil Company was $1,834,294.54?

A That is correct.

Q And it is about the same speaking very generally now?

A Of that amount of $1,800,000.00, $1,074,068.81 is current.

Q Is current?

A Yes. Past due is $774,717.01.

Q Would you mind elaborating on that, Mr. Havelock, because I just want to get the proper picture?

A Current purchases are purchases within the last four months, September, October, November and December, 1938.

Q Yes?

A They came to about a little over $1,000,000.00.

Q So about three quarters of a million dollars represents the moneys which you have not been able to pay off or

A. Havelock

break into very much in the last ten years?

A Yes, in the last ten years, that would cover it.

Q Would you care to make any observations about that or would Mr. Clayton do that?

A Mr. Clayton will do it. I could also, but I think it would be as well to leave it for Mr. Clayton.

Q And I mean I could discuss the thing generally with Mr. Clayton?

A Oh yes, surely.

Q You are marketing throughout the Province of Alberta?

A That is right.

Q You have never had a refinery in Alberta?

A No.

Q You are, I think, from the record the biggest jobber in the Province of Alberta, are you not?

A We think we are a pretty fair size.

Q It is more than what you think about it?

A As a matter of fact, I have not the comparative figures of the other companies, and that is why I said that.

THE CHAIRMAN: He does not know.

Q MR. FRAWLEY: Have you ever seen the gallonage statement prepared by the Department?

A Yes.

Q I show you Exhibit "179" and an analysis of that would show you right away. I thought that perhaps you had those figures in Winnipeg so that you could speak pretty..... And Exhibit "456" shows that you bought from the Imperial Oil Limited in 1938 5,277,736 gallons?

A That will be about it.

A. Havelock

Q Of which the tax collected gallons were - on which tax was collected, the rest being sales to the Dominion Government and of coal oil, the total tax collected 5,056,210 gallons?

A Yes.

Q Which I think according to this Exhibit and Exhibit "179" shows that you are the biggest individual non-refining marketer in the province. You have a great many stations all over Alberta?

A We have 47 bulk and 42 barrel agencies.

MR. PORTER: There is a statement of that.

Q MR. FRAWLEY: You are in many locations, many towns and villages where your supplier is also operating?

A Yes.

Q Any observation that may be made about that, Mr. Clayton perhaps will make it, will he?

A Yes. There is not very much to say about that point.

Q MR. COMMISSIONER LIPSETT: Is this account with the Imperial Oil, is that all connected with your Alberta operations?

A Oh, no. With the entire company. I might mention in connection with that account, and I suppose it would make it a little more valuable, while the indebtedness is as stated during the year 1938 we bought from them in the amount of $3,294,320.35, and we paid them in cash during the same year for purchases $3,351,020.00. That is, we paid them in cash some $60,000.00 more than the purchases were during the year.

A. Havelock

Q That is 1938?

A That is 1938. Now, I have the figures going back to 1932 and on back further if you are interested in it.

MR. FRAWLEY: It might be interesting to put in a statement of that sort.

MR. PORTER: I propose to take Mr. Clayton over this.

Q MR. FRAWLEY: Mr. Havelock, you are the Secretary of the company, aren't you?

A That is right.

Q And you know and can tell us about the stock ownership?

A In a general way, yes.

Q Does the Imperial Oil own any stock directly or indirectly in the North Star Limited?

A No.

Q None of its securities at all, shares debentures or anything?

A No, none at all. It is all open, unsecured accounts.

Q Yes, that is with relation to the accounts, but generally speaking, have they any stock interest in your company at all?

A None whatever.

Q There is no question of interlocking directorates between your company and the Imperial?

A Not at all.

MR. PORTER: In that connection, Mr. Chairman, the list of shareholders of this company has been copied and is here. Naturally, we are reluctant to make it on account of the shareholders' private business rights a matter of public record, but if the members of the

A. Havelock

Commission or Counsel or Mr. Cottle are interested in an examination of that list, it will be made available to them.

THE CHAIRMAN: Mr. Frawley, unless there is some special reason.....

MR. FRAWLEY: No, Sir. The answer I have from the Witness now is sufficient for my purposes.

THE CHAIRMAN: All right.

Q MR. FRAWLEY: Another question which I might put to you for the purpose of merely obtaining your views and so that you can discuss it or leave it to Mr. Clayton to discuss. Is it a fair suggestion to make to you that your company, its very existence depends upon the good nature of the Imperial Oil Limited by virtue of this indebtedness to them?

A I have no reason to believe that at all. Mr. Clayton can elaborate, naturally, he is the General Manager. But my own observation is not that at all.

Q That is, they treat you as they do any other customer?

A Certainly.

Q Naturally you do not know the situation with respect to accounts payable for any other jobbers, naturally?

A No.

Q Like the Canadian or McColl-Frontenac?

A No.

Q What do you think of the suggestion that the Imperial Oil is continuing your company in business for some purposes of its own in the marketing of petroleum products in Alberta?

A Well, we have no indication of it in the actual operations.

A. Havelock

We certainly do the scratching for ourselves all the way through. It is no easier than anybody else. They are just not in the picture as far as the everyday life of the company is concerned than anybody else?

Q You do not consult them with regard to your marketing operations in any way, shape or form?

A No. We receive the same competition from them as we do from anybody else?

Q And you give them the same competition?

A Yes, identical.

Q I suppose it is fair to say, or is it, and I want your comments on anything I put to you, that the Imperial can close you up any time it sees fit.

MR. PORTER: Surely that with this mass of information that Mr. Frawley has in his hands is simply a question as to whether it is a business operation and this much money could be secured in some other place by a bond issue or a sale of stock or some alternative.

MR. FRAWLEY: And that is precisely what I would like to have Mr. Havelock tell me.

MR. PORTER : I do not know whether Mr. Havelock knows the bond market or not.

MR. FRAWLEY: Perhaps somebody else in the company should answer that?

MR. PORTER: And perhaps somebody not in the company?

A Actually the current purchases are $1,000,000.00 and as our current business was based on $3,000,000,00 purchases,

A. Havelock

there is nothing to be alarmed about, or no favor or anything like that. We could go to any competitor or anybody who wanted to do business with us and offer him a chunk of $3,000,000.00 a year business, and I presume they would carry us current $1,000,000.00 like they would any dealer. The operation is very simple. We buy tank cars and we ship them out throughout the province. Our agents sell them to the dealers and in turn collect the money and that money comes in to us and it gets back to the Imperial. So the fact we are handling that itself is quite normal. I do not say that we could not make a similar arrangement elsewhere. That is my opinion.

Q I want to put something else to you. I am not so much troubled about your current $1,000,000.00 but I am thinking about this three quarters of a million dollars which seems to be pretty well frozen?

A Mr. Clayton will give you a very good explanation of why and I think it will clarify the whole thing.

Q There is nothing acrimonious about this discussion. I am throwing out these suggestions so that you can discuss them with the Commission. Well, I think in view of the fact that Mr. Clayton is going to make a general submission, then that is all I have to ask you, with the understanding that after seeing Mr. Cottle this afternoon and something further should be brought out in your evidence.....?

A We will be glad to give you anything.

Q MR. COMMISSIONER LIPSETT: Are your current assets approximately $150,000.00 more than your current liabilities?

A That is right. In our current assets there are accounts

A. Havelock

receivable as shown net of reserve and our reserve for bad debts is a big item. Incidentally that is what Mr. Clayton will touch upon in the discussion of the Imperial Oil account and that three quarters of a million frozen dollars.

Q Excluding the reserve for doubtful debts, you have $150,000.00 of a credit margin?

A That is right. Our reserve for bad debts is big, all current in the period we all know of, 1929 and 1930, where everybody else was caught.

THE CHAIRMAN: That is all, thank you.

THOMAS NORMAN CLAYTON, Having been duly sworn, examined by Mr. Porter, testified as follows:

Q Mr. Clayton, you are the General Manager of the North Star Oil Company?

A Yes.

Q How long have you been engaged in the oil business?

A For 38 years.

Q You began, I believe, in the refinery end, did you?

A Yes.

Q How long have you been with the North Star Company?

A 20 years.

Q That is almost since its inception, is it not?

A Yes.

Q Now, the North Star Oil Company took over the business previously existing known as the Continental Oil Company, did it not?

A That is right.

Q And has been carrying on business in Western Canada for how long?

T. N. Clayton

A The North Star?

Q Yes? Well, the North Star and the Continental, the combined operations?

A I think the Continental came here in 1909 or 1908, I am not sure which.

Q And the North Star was organized in?

A 1919.

Q And took over and carried on the old Continental business?

A Yes.

Q Now the Exhibit "493" shows the date of the construction or leasing of your service stations and the number and location of your bulk and barrel stations through Alberta?

A Yes.

Q What has been the nature of the growth of that structure? Has it been gradual or was there some period of expansion?

A There was a period of expansion I think in 1927 and 1928 when quite a few stations were put in. It might be well though to go a little back of that. The company as you pointed out took over the Continental Oil business in 1909 and the progress of the company was quite rapid until in I think it was 1926 or 1927, and the earnings reached an appreciable amount. The expansion of the business appeared to justify increased outlets. Conditions in the West were promising and close to 200 bulk plants were put out in 1927 and 1928, I think it was.

Q In the West?

A In the West. Just the exact number of those which went into Alberta, I am not quite certain. The plants we took over from the Continental were only I think 4 or 5, Alberta, Calgary, Camrose and Edmonton.

T. N. Clayton

Q That is in Alberta?

A In Alberta, yes. So that the additional stations which appear in our report were built between that and the present time, mostly in 1927 and 1928.

Q Now Mr. Frawley was discussing with Mr. Havelock the accounts payable position?

A Yes.

Q And I think it might be useful if the Commission had some explanation of the growth of that account and where it came from and what has happened to it.

A We have a record here which will be filed as an Exhibit. At the end of 1928 we owed the Imperial Oil Company about $928,000.00.

Q That is at the end of 1928?

A At the end of 1928.

Q Now that statement, if you will go back to 1921?

A In 1921 it was just about $300,000.00.

Q And in 1928 it was.....?

A $928,000.00. The growth of the account would probably be accounted for by the increased business we were doing with them. Naturally, the amount would be somewhat larger than it was in 1921.

Q Your increase in gallonage?

A Yes.

Q What happened to that account between 1928 and 1930?

A The account at the end of 1930 increased to $2,900,000.00.

Q From $900,000.00?

A From $900,000.00.

Q Yes?

A That period of course 1929 and 1930 was a period of

T. N. Clayton

great activity in the West and agricultural conditions were good. At least they appeared to be good. For some reason or other our competitors started out on a policy of granting credit to farmers, a policy of which we did not approve and a policy from which we withheld for some 30 or 60 days after it was inaugurated by our competitors. But pressure became so great from our organization, particularly our agents, to enable them to meet competition in the field that we reluctantly met the situation and granted credit to farmers, which of course as I think everybody in the West knows was a disastrous policy because the whole thing collapsed in 1930 and the amount of money standing out with the farmers is still there.

Q It is still out?

A Yes. Our company has written off or will have to write off just about $1,000,000.00 of farm credit.

Q So that is just about the position shown in this statement as at 1938. That $774,000.00?

A It is covered by the amount.....

Q It is more than covered by your credit losses in 1929?

A Yes.

I think while we are talking about that, if you will look in the last column there in the past due position you will see in the last year that has been decreased by $350,000.00.

Q I see it is half.....?

A In the last 5 years it has been decreased by some $600,000.00. So that the situation is not at all hopeless, our position to the Imperial. The same progress in the next 5 years should wipe out that over due position.

T. N. Clayton

Q MR. FRAWLEY: Mr. Porter, Mr. Chairman, is now reading from a separate sheet which is not in the Exhibit "493". He is quite content to have it put in and I think it should be in really as just another page of Exhibit "493." That is on the last page. It would follow on very well after the balance sheet. Page 15. So we might call it Page 16 of Exhibit "493".

THE CHAIRMAN: All right.

MR. FRAWLEY: It could actually be inserted during the recess as part of "493".

MR. PORTER: That is all, Mr. Clayton, unless you have something to add. Answer Mr. Frawley.

Q MR. FRAWLEY: I suppose what you say is that if the Imperial Oil, if your relations in any way became strained with the Imperial Oil that you feel you could take that three quarters of a million dollars and cancel it out as far as the Imperial Oil is concerned and put it in another place in your balance sheet by some sort of a debenture liability of some kind?

A Well, we would naturally hope to do something of that kind.

Q You are satisfied with your financial situation, with the financial situation of your company? Not perhaps as much as you would like to be?

A I would like to see it better, naturally, anybody would. But we do not think that it is hopeless at all.

Q I wanted to clear up another suggestion, that being an Imperial jobber you are simply another marketing arm of the Imperial, that could be very well dispensed with

and help to solve this so-called evil of duplication?

A We are anxious to clear that point up, too.

Q You feel, let the Imperial Oil become as nasty as they like, you could look after that three quarters of a million dollars by raising some money elsewhere?

A I would think so.

Q You think if you offered this much business to the other Alberta refinery, the British American Company, they would be very glad to look after your requirements and carry whatever liabilities you have for the time being?

A Yes, or I could suggest we might even enter into manufacuring on our own.

Q I want to ask you about that because we have that as a reason for what some people have called the favorable jobbing price. I would like to discuss that with you in a minute. If you had to for any reason decide, or your own directors decided, that you wanted to sever your relations with the Imperial Oil and still stay in business, where would you go for your requirements do you think?

A I would think the logical thing for us to do, if that connection was severed, would be to produce our own.

Q Let us examine that. You do not think the first thing to do would be to go to the British American and try to get a jobbing contract from them?

A Well, we are getting a little bit in the realm of theory. That is, I am confronted with.....

Q A theoretical proposition?

A A theoretical proposition. The reason I mention manufacturing our own products is we have some experience in that line.

T. N. Clayton

It is not as though we do not know anything about the refining end of the business. But if it came to a question of whether we would buy the stuff or make it, we would naturally study the possibilities of the manufacturing of it.

Q You have a refining operation in Winnipeg?

A Yes.

Q But it is not a very large operation?

A No, it is not large.

Q It does not serve to supply you with all your market requirements in the City of Winnipeg?

A Oh yes, it does in Winnipeg.

Q Do you make standard gasoline?

A Yes.

Q And Ethyl gasoline?

A Yes.

Q Within your plant?

A Yes.

Q With the help of an Ethyl contract?

A Yes.

Q Have you any cracking units in the plant?

A No.

Q Just a skimmung operation but thanks to Ethyl you are able to market standard and Ethyl gasoline?

A Yes.

Q It does not take you very far out of Winnipeg, does it?

A No. It is uneconomic to ship it back West.

Q Anyway, with that refining experience you think it would serve you in some state in this province?

A Yes, we have had that plant there for 20 years. We have

T. N. Clayton

had some experience.

Q That is, you think the most logical thing you would turn to is your own refining?

A I would think so.

Q Because you cannot get if from Montana - I just put it to you, for a price that you are paying the Imperial, could you?

A I have never investigated that. I imagine not.

Q Do you know what the laid-down cost of the Texas Company for standard gasoline at Calgary is?

A No.

Q If you assume with me it is 12.93¢, building up from the refinery price of 6½¢ U. S. and 7½¢ Imperial, the laid-down cost at Calgary is 12.93¢. You appreciate that, you have compared to the Montana importation a very favorable price from the Imperial?

A Yes.

Q Why do you suggest the Imperial gives you - because you are the other half of the bargain, why do you suggest the Imperial sells it to you at 10½¢ at Calgary, is it not, just now?

A You are speaking of.....

Q Of standard gasoline?

A 10¢.

Q 10¢?

A Yes.

Q 6½¢ under the tank wagon, is it. It is 10¢. That is not the new price. I understand you have a new price coming up?

A Oh, you mean.....

T. N. Clayton

Q Today's price?

A 10⅝¢ is right.

Q 10⅝¢?

A Yes.

Q Is it a fair question to put to you why do you suggest the Imperial gives it to you at 10¢ when if you were to buy it in Montana, and that is only one alternative, the Montana alternative, you could not buy it under a cost of about 13¢?

A I presume they want the business. That would be the only reason, I would think.

Q Do you think that they fear your potential competition as a refiner?

A I cannot say.

(Go to Page 11,601)

Q Have you ever discussed with the Imperial your potential competition as a refiner?

A No.

Q In the negotiating of this price you have never put to them, have you, as a trading point, that you would come into Calgary and refine if they didn't give you this price or some equally favorable price?

A Not in words. No, we have never discussed it.

Q And you have never approached the other large refinery, the only other one large enough to handle your requirements, namely the British American Oil Company, you never approached them shopping for a better price to meet the Imperial's?

A No.

Q And what I am interested in, as you are dealing with the Imperial and that is the point which you desire the Commission to take from your evidence, Mr. Clayton, as I understand it, your dealing with the Imperial is a strictly business proposition and is not in any way limited, you are not, you are not in your business dealing with Imperial Oil restricted in any way, hampered or interfered with in any way by the fact that you have owed them three quarters of a million dollars for the 10 years?

A No, sir.

THE CHAIRMAN: We will take a recess now.

(An adjournment of fifteen minutes was here taken.)

Q MR. FRAWLEY: Now another subject, Mr. Clayton, your price, the prices you pay, Mr. Halverson put in evidence as Exhibit "316", the jobbers' prices and sales and other information but as to jobbers' prices on page 3 appears this information, Canadian Oil, Union, Highway, Maple Leaf,

North Star and Texas buy on this basis, marginal basis below posted tank wagon price of products at destination, "Q" colored gasoline 6 cents, Ethyl gasoline a cent and a half above "Q" colored; standard white gasoline .50 cents below "Q" colored; motor gasoline, white, 5 cents below posted tank wagon; tractor distillate 5 cents below; Turner Valley gasoline 5 cents below; water-white kerosene 6 cents below, has there been any change in the situation as it appears on page 3 of Exhibit "316"?

A Well, the Imperial Oil has just about a week ago or ten days ago advised that they wished to change that method of dealing to an f.o.b. refinery basis.

Q Yes, now would you mind just translating that into prices, as of the day on which Mr. Halverson was giving his evidence some time in June, the posted tank wagon price at Calgary on "Q" colored gasoline was 16½ cents, that is correct?

A Yes.

Q So you would be buying "Q" colored gasoline or standard gasoline from the Imperial at the date this was put in, in June 1939, at 10½ cents, that is right?

A F.O.B. our plant.

Q 10½ cents f.o.b. your plant, just what does that mean, delivered?

A Yes, they would pay the switching.

Q Pay the switching from their plant at Ogden to your plant in the city of Calgary?

A Yes.

Q And it was f.o.b. at your warehouse, before, at 10½ cents?

A Yes.

Q Now Mr. Halverson has advised you, you say, that he is changing the basis of his prices to your company and he is now going to charge you something, f.o.b. the refinery?

A Yes.

Q And that will be, now what would be the price on standard gasoline, what would be his new price?

A 10 cents on standard.

Q I suppose it is just as useful to put in this letter, Mr. Clayton, which explains it?

A All right.

Q This is a copy of a letter which Mr. Clayton wrote to Mr. Cottle on the 12th of July, 1939. If Mr. Cottle were here I would offer the original.

THE CHAIRMAN: That will be Exhibit"494".

(COPY OF LETTER FROM MR. CLAYTON TO MR. COTTLE DATED JULY 12TH 1939 PRODUCED AND MARKED EXHIBIT "494")

Q This is written by you from Winnipeg?

A Yes.

Q July 12th, 1939.

"July 12, 1939

"Mr. F. G. Cottle,
"Petroleum & Natural Gas Conservation Board,
"Telephone Bldg.
"Calgary, Alta.

"Dear Sir:-

"Among other reports, we have given you the basis "on which we purchase our supplies from the Imperial. "This heretofore as you know has been on a marginal "basis.

"We have recently been informed by the Imperial Oil, "Refinery Sales Department, that effective July 10th

"all goods purchased from them will be purchased on "an f.o.b. refinery basis. For your information I "am attaching hereto a copy of that portion of the "advice which pertains to Alberta."

And this is the quotation:

"'Applicable on shipments on and after July 10th, "we quote you F.O.B. Western Refinery shipping 'points as follows: Base Price, Tank Cars, F.O.B. 'refinery, Regina, Calgary,'

And the prices for Regina I will not quote,

'	BASE PRICE, TANK CARS, FOB refinery
'	CALGARY
'Ethyl Gasoline	11.00
'Q Colored Gasoline	10.00
'Standard White Gasoline	9.20
'Motor Gasoline, White,	9.20
'Turner Valley Gasoline	9.20
'Water White Kerosene	12.00
'Tractor Distillate	8.00

" Yours very truly, "

You have, I suppose, figured out what the advantage or disadvantage to your company will be arising out of these new quotations?

A Well, I have not had an opportunity to study the detail but generally speaking it is about the same; if anything I would say about 1/10th of a cent less than the other was, or to our disadvantage.

Q To your disadvantage?

A Yes.

Q What I see here at once is that there is on standard gasoline a 1 cent, a half a cent difference?

A Yes.

Q On the surface?

A Yes.

Q Now it is the difference, you say, of taking it away from the refinery, taking the car away from the Imperial Oil refinery at your own expense to your warehouse or having it delivered at your warehouse?

A Yes.

Q Well now, when you were buying gasoline for your sub-stations, at say Red Deer, how was it sold to you previously, at the Red Deer price, Red Deer tank wagon price less 6 cents?

A Yes.

Q And you will pay 10 cents for that gasoline at the Imperial Refinery door and take it to Red Deer at your own expense?

A Yes.

Q And that is where the new freight rates which are about to be entered into, assuming approval by the Board of Transport Commissioners, between the Imperial Oil and the railway, comes into operation?

A That is the reason we have not been able to make a very close study of it.

Q And you must weigh the exact situation on what the savings will be on freight?

A Yes.

Q In Alberta?

A Yes.

Q Coupled with the superficial saving of a half a cent in Mr. Halverson's price to you?

A Yes.

Q And when you have done that, Mr. Clayton, would you be good enough to file some sort of schedule showing what the new prices will be, whether they are lower or higher than your existing prices?

A Yes.

Q MAJOR LIPSETT: If you were shipping to Red Deer under the old arrangement was the gasoline first shipped to your warehouse?

A No.

Q And then from there to Red Deer?

A No, it was shipped direct by tank car from their plant at Ogden to Red Deer.

Q Did you pay them 10½ cents then, plus the Red Deer?

A No, they would bill it to us at the Red Deer market less 6 cents and pay the freight themselves.

Q This 10½ cents then applied only to Calgary where you take it over to your own plant?

A That is right.

Q MR. FRAWLEY: Mr. Clayton, your posted price lists throughout Alberta is, I suppose I can say, identical with the Imperial Oil Company's posted price lists for similar products?

A Yes.

Q Throughout Alberta?

A Yes.

Q Now in posting those prices, because you do actually issue a price list, do you not?

A Well, we issue a price list on lubricating oils and greases.

Q Oh, I see, do you issue a price list on gasolines and distillates?

A No.

Q Well what do you advise your agents?

A We have a filed list in the office and the agents are individually advised what the market is.

Q And it is just the Imperial list?

A Yes.

Q Now when you arrive at a decision to sell at Imperial's prices do you exercise, make any independent calculation as to what your particular market setup would enable you to do or do you just say "We will follow the Imperial's price list because we have to", and if you lose money it is just too bad and if you make money it is all right?

A Well, we of course know exactly what we are doing at each point.

Q Yes?

A We know whether we operate at a profit or a loss and we naturally try to avoid losses.

Q Yes?

A If for any reason we are faced with a loss we have to decide whether that is a temporary condition or a permanent condition and if it is a temporary condition you might write it out but if it is a permanent one you might decide to get out of the territory.

Q Yes, but assuming now you are not losing money; if you were losing money at a certain point you would have, it is unthinkable to suppose that you would be able to reduce your price but have you ever considered reducing the price at those points where you are making money?

A No.

Q Why is that?

A Well, to reduce the price would merely bring the price level down. The competitors would immediately meet any reduction.

Q Yes, but the consumer would get a little benefit, I mean, apart from competitors, have you ever been able to see your way clear to make a reduction?

A We have never been in a position where we felt we had something which he had to pass on to them, to the consumer.

Q You are making an over all profit on your Alberta business?

A Yes.

Q And I am unable to say whether it is more than you consider a fair return on your money but I can assume, I suppose, it is not what you consider more than a fair return on your capital?

A It is a very small return, at least about 1/3rd of a cent a gallon.

Q 1/3rd of a cent per gallon, net profit. Have you figured out in this material, have you any calculations showing what it is in percent of return on the capital invested, not per gallon, I mean apart from the per gallon figure?

A It would be, let me refresh my memory, the net profit for the year 1938 was $50,000.00.

Q MR. PORTER: That is the total company?

A The original paid-in capital was about a million.

MR. FRAWLEY: Yes, but Mr. Havelock apparently has the figure I want. I would like to know how much you made in Alberta on that allocated figure, how much you made.

WITNESS: Has he given you that?

MR. FRAWLEY: Mr. Havelock, you might answer the question.

MR. HAVELOCK: Our Alberta net profit in rough figures is $10,000.00. The Alberta investment and we will give you two figures there, gross value is $1,342,00.00; net value, that is taking off depreciation and knocking off all the bad debts, is $842,000.00, so you can compute ----

MR. FRAWLEY: Have you computed it?

MR. HAVELOCK: No.

MR. FRAWLEY: You have not computed it?

MR. HAVELOCK: No.

MR. FRAWLEY: Will you compute it, the percentage of profit on your depreciated value?

MR. HAVELOCK: I will.

Q (MR. FRAWLEY TO MR. CLAYTON) Now, Mr. Clayton, can the consumer look to the North Star Oil Company as a jobber, distinguished from the integrated operator, can the consumer look to the North Star Oil Company for any reduction in the posted tank wagon price in Alberta?

A Well, not directly.

Q Not directly, not soon, you mean?

A The North Star Oil of course is a large jobber, it is part of the oil industry in Alberta and the oil industry as a whole in this province has given the public a substantial reduction; our best gauge of what we might accomplish in Alberta is the cost in marketing; after all the jobber's problem is gauged entirely on its cost of marketing.

Q Yes?

A Our figures show that within a period of about 10 years our cost has been reduced from about 6 cents to 4 cents a gallon.

MR. FRAWLEY: Mr. Havelock, will you just complete your answer and tell me the rate of return which your profits show on your depreciated capital invested in Alberta?

MR. HAVELOCK: 1 and 2/10ths per cent of the capital invested.

Q (MR. FRAWLEY TO MR. CLAYTON) Now, I take it from that figure, Mr. Clayton, there is nothing very hopeful to the consumer so far as getting a reduced price on petroleum products through the instrumentality of your company?

A Well, I would like to finish what I was saying ---

Q Yes?

A The reduction of 2 cents a gallon in the marketing cost has not been retained by the company which is obvious from the figures you have just had, the net profit of 1/3rd of a cent a gallon shows that the two cents, that most of the 2 cents has been passed on to the public; possibly not by our own company direct in posted prices but by the industry and the part which we took in bringing down the cost of distribution.

Q Then you have never of course led in any price increase or decrease?

A No, I would not say we had.

Q You have simply followed the Imperial?

A Yes.

T. N. Clayton

Q Now you speak of price reductions, have you made a study of the price reductions made in the tank wagon prices in Alberta, excluding naturally for the purposes of this question, the reductions in the price of crude; now there have been some very sharp decreases in the tank wagon price as you know due exclusively to the cut in the price of crude?

A Yes.

Q Now, putting those to one side, would you be able to tell us what reductions there have been in the tamk wagon price which would, in other words, seem to be reflected in a shortening of the market spread or the refinery spread?

A I would not attempt to do that, Mr. Frawley. I think you must have had witnesses who are in a better position to do it than I am.

Q Yes, but what I am trying to relate, is the savings you have made in marketing costs with the tank wagon reductions?

A Yes.

Q You have simply followed, when the tank wagon price has been put down by the Imperial, you have followed?

A Yes.

Q You say for yourselves you have had some decrease in marketing costs?

A Yes.

Q Which has enabled you to follow those reductions?

A Yes.

Q An that is about what it amounts to, is it not?

A Yes.

Q Now, I want to ask you some questions as a marketer, which

I have been asking all of the marketing companies and any of them which you think should be answered by Mr. Havelock, I wish you would just tell me, in fact some of these are so detailed that I think I will leave some for Mr. Havelock and only deal with some with you, do you give your commission agents any assistance in financing the purchase of trucks?

A Yes.

Q And what system is that?

A Well it is usually, we have no set rules for it. We usually expect the agent to put up some portion of the cost of his trucks, say up to about 40%.

Q And you carry the balance at what rate of interest?

A I am not sure that we charge him any rate of interest. If we do it would be a moderate one.

Q It would not be any more than 5%?

A No.

Q And perhaps not that much?

A I do not believe we charge him any, do we, Mr. Havelock?

MR. HAVELOCK: No.

MR. FRAWLEY: No interest at all?

WITNESS: It is usually paid up, it is usually financed on a basis of about a year, it is not an extended period.

Q Now you have a certain number of what are called "commercial consumer accounts"?

A Yes.

Q And what do you think about those commercial consumer accounts, are they inevitable or should they be eliminated?

A I do not know if I have exactly the same class of trade in

mind, but consumer accounts would be transfer companies and people of that kind who use the material themselves.

Q Yes, and you give them, you give them or sell them, I should not suggest you give them, you sell them facilities, do you not, a tank and pump?

A Yes, if they require it.

Q Do you ever give them to them without any charge?

A No.

Q Is it fair to say you are not very exacting in the collection of the accounts or is that an unfair thing to say, are you exacting in the collection of the account?

A Yes, I think so because these people are usually able to pay and there is no reason why they should not pay.

Q These people have no other facilities, they have no compressors to inflate the truck tires?

A Generally not.

Q And they have very ordinary facilities for water for the radiator but they have no battery facilities or anything of that sort?

A Usually not.

Q They have to go to the service station for that?

A I presume so.

Q Why should they be entitled to this preference of the 100% tank wagon price, is it not unfair to your retail dealers?

A I do not know that I can say offhand. I do know that a good many commercial accounts finally gave up the idea of servicing their own equipment and go to service stations.

Q And when they go to the service stations do they not get a little better price than the ordinary motorists?

T. N. Clayton

A Well we are rather suspicious that they do.

Q What are your view about that; if you learned that a dealer of yours was doing that would you be concerned and remonstrate with him at all?

A Well it has got so fairly general now that we generally do not remonstrate with them particularly.

Q Let us assume that, a wholesale grocer who has been doing business with you as a commercial consumer gives it up and goes to the service station and let us assume, as you think happens, he gets a better price than the ordinary casual motorist?

A Yes.

Q And it may be that a lot of that service station operator's gallonage might be that, it might be as much as half of his gallonage, might come in that way through these commercial consumers -----

A That would be rather unusual.

Q That would be high, would it?

A Yes.

Q 40% in some cases?

A I doubt very many run that high.

Q What has been bothering me is, if the retailer who has to meet that competition of yours, dealing with these commercial consumers, is driven to bring down his spread from 4½ cents in Calgary, 4½ cents in Calgary and 4 in Edmonton I think, to say 2½ cents in Calgary, why does he need to charge, if he is satisfied to do a considerable portion of his business for 2½ cents, then what are your views as to whether he should, it is fair for him to go on charging 4½ cents to the rest of his business?

T. N. Clayton

A Well we would rather that that situation did not exist. We would like that the owners of fleets of trucks and these commercial houses paid the same price as everybody else.

Q At the service station?

A Yes.

Q At the service station?

A Yes.

Q But do you not think that your practice of setting up pumps and tanks in their back yards, lends itself to an advantage being taken of the retailer; they must go to the retailer to service these cars, really that is the fact, they must impose on some retailer for everything except the gasoline itself, is that not about so?

A That is true in many cases. Of course, there are many exceptions to that.

Q Where they have a large fleet?

A Yes.

Q But in most cases that goes on and what do you think, what do you think about the dealer margin, should the dealer margin be fixed in your opinion, should this Commission recommend, after reviewing the whole situation and endeavoring to arrive at some fair dealer spread, should it be recommended that that be established and not varied from?

A Well that is a pretty difficult question to answer. There have been attempts in different places, I know in the city of Detroit they have taken to setting that price and they have made attempts in other parts of the United States to

set it and I do not know that any such attempt was ever made in Canada and I do not know if I would care to make a suggestion on that.

Q Have you made enough study of the marketing situation in Alberta that you could suggest a figure which would be a fair minimum spread or a maximum, for that matter?

A No, but I think conditions are fairly similar here to what they are in the other parts of the West, Manitoba --

Q Why do you feel it necessary to give the commercial consumer not only posted tank wagon but 1 cent better than that, the 100% dealer putting him in the same class exactly as the man who is making his living out of buying your gasoline and reselling it?

A Well personally, I am not at all convinced he should get that cent.

Q You think if he got it at the posted tank wagon it ought to be good enough for him?

A I would think so.

Q Now what is your attitude toward the steel barrel situation, your company, like all of the large marketers in Alberta hands out steel barrels free to farmer consumers or any kind of consumer, why do you do that?

A Well it is largely a matter of bookkeeping?

Q Of bookkeeping?

A Yes. It has been our experience that any attempt to keep track of steel barrels by number or to follow them into the hands of the farmer or consumer by the individual barrel is more expensive than the number of barrels which are lost.

T. N. Clayton

Q First of all, what do you think about the practice of giving him a barrel free, why not charge him for the barrel when you sell him the gasoline?

A It would be very difficult, I think, to get $8.00, the cost of the barrel from the farmer.

Q Difficult to get it?

A Yes.

Q Certainly difficult to get it now after all these years of free barrels, I suppose?

A Yes.

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Of course, our picture - I cannot speak for the other companies - but our picture is not quite as loose as your question might indicate.

Q Tell us about your situation?

A When we open up an agency we agree with the agent as to what steel barrels he should have to take care of his business, say an average of about 150 barrels. Our agent then is charged with 150 drums at $8.00 and an entry is made in our books for that, $1200.00. The entry remains there until that agent is closed out or some condition changes or the number of barrels in his equipment is added to or taken away from. In the meantime he accounts to us for the 150 drums and subject to audit he has to periodically tell us where these drums are and who has them. We do not go through the process of having the agent report what particular farmer has these drums and make any bookkeeping entries, which would have to be made with the farmer. As a matter of fact, we have no account with these farmers on our own books.

Q If your agent reported he had just been following all other marketers' practices and had issued a considerable number of steel barrels and there was a considerable mortality in the barrels, would you do anything about that?

A Well, presumably the agent would be responsible to us for that shortage.

Q Presumably, which means on the books?

A Yes.

Q You would not actually deduct $8.00 per barrel from his commissions, for instance?

A It is not very often done.

Q Which means then that you are just about the same as the rest of them, you are handing out these barrels without any charge and I wonder with how much regard to their return?

A I still would like to say I do not think it is quite as loose, because, after all, we do not give an agent an excessive quantity of drums. Our company never has had any excess. It has really had a shortage. The agent's ability to do business and the volume of business he can do depends on the number of drums he has. He is under constant pressure from that standpoint to get his drums in and use them.

Q That is an interesting suggestion. Mr. Macleod, the Texas Company's solicitor suggests or tells me that the Texas Company of Canada does collect for lost barrels and deducts that from the commission, which is a very definite way of having the marketer paid. Now, you have not seen fit to go that far?

A I would not say we do not do it. But the point would be you would have to decide and you would probably get into a dispute with the agent who probably would claim that he was not short and that the adjoining agent had invaded his territory and taken his drums, and you find yourself in this way, that you would not be in a position to enforce collection.

Q Have you any suggestion about it. Have you any submission to make to the Commission as to what its recommendation should be with regard to the whole steel barrel matter and should it be just cut off. You might be interested in knowing what Mr. Halverson said about that. He said "Up to the present we have been loaning barrels to farmers. We

intend to carry on loaning the steel barrels we now have so long as they do not need replacing. When additional barrels are needed it is our present intention to sell the farmers non-returnable barrels at cost." Would you be prepared to do the same thing?

A No, I do not think that the saving in the cost of the non-returnable package compared with the returnable package is sufficient. In other words, the returnable package is still the cheapest. The non-returnable package would cost you over half of the cost of the other type. Its life would, in my opinion, be very short. That, of course, is a matter which has been considered by all oil companies and it will be faced very soon by all of us, the matter of replacing the present equipment. There is difficulty in any plan which you consider and what will be the ultimate one I do not know if anybody knows; The situation in Western Canada cannot be compared with the States. It has been compared unfavourably with the situation in the Western States where I understand, or I have heard it said the Texas Company in all the Western States did not have 1,000 steel barrels. But they did have in that area a large number of non-returnable packages. They have a secondhand barrel market where barrels can be bought at a dollar or a dollar and a half, something similar to the old wooden barrel market, - which we have not got in Western Canada. There is no source of supply of cheap secondhand packages and uhless there is some way of the farmers getting these packages at a low cost I do not see how you can get away from the present system of distribution. The farmer must have barrels.

Q You cannot just ctell him to buy his own barrels and come with his barrels to the service station and buy his products?

A It certainly could only be done by concerted action by all the oil companies at a definite date.

Q What I was interested in was having your considered suggestion about that. What you have said is, perhaps, all you can say about it, Mr. Clayton?

A Yes.

Q Your company, I suppose, has some third party leases, what are called third party leases?

Q MR. COMMISSIONER LIPSETT: Just before you pass from that. Assuming that it was recommended that it could be done with concerted action----

Q MR. FRAWLEY: Assuming that there could be some concerted action, what would be your suggestion as to what that concerted action should be?

A Well, it would be presumably in one direction and that is the farmer would be required to pay for the package when he took it away from the station.

Q And then it would be his?

A It would be his.

Q And he could bring it back for his next load?

A Yes.

Q Would you be prepared to finance him in the purchase of them, like creameries, do I understand, with cream cans?

A The idea would not appeal to me.

Q You would not attempt to finance him?

A No.

MR. PORTER: The creamery is rather different.

T. N. Clayton.

Q MR. COMMISSIONER LIPSETT: Your actual investment in drums seems to have been practically one-third of your entire investments in Alberta?

A That is right.

Q The original cost, you see it on page 1 of the Exhibit. You have actually financed the drums without any hope of getting your money back?

A Well, any more than, of course, we get the use of them. The barrels are constantly turning over.

Q Have you any arrangement under which these barrels can only be filled with your product, or can they go, as somebody suggested, with that barrel and get the barrel from you in the first instance and go and get it refilled anywhere they like?

A That has happened, more particularly in Alberta than it does in other parts of our territory. But there is no doubt a great deal of that has been taking place in Alberta.

Q There is no method devised of stopping that?

A Not any more than the vigilance on the part of our agents getting the barrels that he has been allotted.

Q MR. PORTER: While they may fill your barrel with a competitior's commodity to-day, your stuff may go out in a competitor's barrel to-morrow. That is true, is it not?

A It possibly is.

Q MR. FRAWLEY: You put the North Star mark on all your steel barrels?

A Our name is embossed on the head.

Q But that seems to be very little of a deterrent, I take it?

Q MR. MACLEOD: When you look at the other side of the picture, is there much difference. Steel barrels

are necessary?

A Yes.

Q They must be provided?

A Yes.

Q If you do not provide them the farmer must provide them, or the user of the gasoline?

A Yes.

Q And it does not make much difference whether the consumer pays a little more, if he does pay a little more for his gasoline to cover your cost of providing the steel barrels?

A That is one way of looking at it.

Q MR. COMMISSIONER LIPSETT: Does not that put, on that contention, put the whole burden on the other gasoline consumers if that service is provided free for the farmers, must not the other gasoline users pay for it?

A Well, I suppose they do in a way. Of course, it would be rather difficult to undertake to allocate the expenses among the different classes of the trade. I was just going to look and see what the depreciation was. On drums last year in our case it was $41,000.00, which is about one-fifth of a cent a gallon on our entire business, or one-sixth of a cent, rather.

Q You simply have written off about 60% of the drums, haven't you, Your total original investment was $246,702.00 and you have a depreciation on that of $143,087.00?

A Yes. Our drums are rather old. The drum equipment has not been replenished since about 1929.

Q Does that depreciation figure include actual depreciation or does it include the drums that have been lost in addition?

A It is actual depreciation. The gross amount of $246,000.00 has been adjusted about two years ago. I think we made an

adjustment on our books to take care of the drums that we figured were actually out of use and no longer existed. In other words, the $246,000.00 is the investment in the drums still in use.

Q The original investment in drums then would be more than that in the beginning?

A Yes.

Q Have you got the original figure?

A We will get that for you.

MR. FRAWLEY: Mr. Havelock might be able to give us that. Mr. Commissioner Lipsett is asking for what?

MR. COMMISSIONER LIPSETT: Mr. Clayton says that this figure, Cost of Drums, $246,702.00, is not the original cost of the drums but is the valuation that was put on the existing drums about two years ago. I was asking if you knew what the original investment in drums was.

A That is correct, I think, Mr. Havelock. We made a capital adjustment two years ago taking out of our records the barrels no longer in existence.

MR. HAVELOCK: It is the actual barrels in existence.

A The Commissioner would like a statement of the original value of all the drums.

MR. HAVELOCK: All right.

Q MR. FRAWLEY: Now, Mr. Clayton. Is that all you want to ask the witness?

MR. COMMISSIONER LIPSETT: Yes.

Q MR. FRAWLEY: There is the question of leases. You in many instances will rent premises from the owner and then lease them to your dealer?

A We do some of that but that is not a company policy.

Q Are there other cases where you will rent the premises from the dealer himself and then rent tham back to the dealer?

A Well, I thought that is what you referred to.

Q No, I mean where you would go to X, who owns a piece of property, and rent that property from him and turn around and lease it to your operator?

A We do that, yes. That is our practice.

Q There is the odd instance of the other thing, where you would go to the dealer who owns the property and become his tenant and then re-lease to him?

A That is not our policy.

Q If there are any there are very few?

A Very, very few.

Q Can you prepare, if it is not already there, can you prepare a statement of cross-leases, third party leases, as they are called, and cross-leases, those are the two kinds I put to you, showing the investment in each of the premises, the rents that are paid and the rents that are received and generally showing what the picture is with regard to leases?

A Yes.

Q Now, then, if it turns out, as I am sure it will turn out, that you are not collecting as much in rents from your dealers as you are paying out, for rent on the one hand, when you are paying it, or if it is property that you own the taxes that you pay and your insurance and so on. What do you say about that. What is the reason for your not insisting upon the payment by your dealer of what might be called an economic rent, as a landlord pure and simple?

A We endeavour to secure from the lessee the amount it takes to carry the property. There are cases where we are not able to get that.

Q As a policy, and I am speaking of policy, do you really endeavour to get from the operator in rent enough money to completely reimburse you just as if you were renting me a house?

A Yes.

Q You do?

A Yes.

Q And the statement that you will be good enough to file will show all of that?

A Yes.

Q Now, what have you got to say about the practice of entering into these leases and tying up an outlet, not using "tying up" in any sinister way. What is the good of it? What is the advantage of it to the company on the one hand and the dealer on the other?

A Well, the company, of course, secures an outlet.

Q Yes?

A And as far as the dealer is concerned it must obviously be to his advantage or he would not enter into the deal.

Q It is to his advantage if it should be that he does not pay you as much rent as though he were renting it from some person not interested in the oil industry at all, I suppose that is what you mean?

A Well, he probably would not have the capital to put up the buildings and so forth that he required.

Q Well, we have a certain premises that might be suitable for gasoline selling and it is owned by anybody you like,

a trust company, and the operator goes directly to the trust company on his own to make a rental proposition, to rent the premises and presumably the trust company would insist on payment from him of enough rental per month or per year to pay everything and pay all of the going charges and some return, I take it, on his investment. That is one situation. The other situation is where you own it or you rent it, perhaps from the trust company and then re-lease it to the operator and that is a different situation altogether?

A Yes.

Q That is what I want to put to you. The advantage to the dealer is obvious because he is paying you less than if he rented it himself?

A I do not see that.

Q Well, I will put it in the form of a question; would he in that instance not pay you something less than he would have to pay if he was dealing with the trust company at arm's length?

A It is quite likely.

Q Assuming that were so, there is an advantage right there, I take it, to him?

A Yes.

Q To the dealer?

A Yes.

Q But what about you, what is the advantage to you in going through that transaction?

A I would like to ask a question here, if I may. Are you referring to dealer outlets or service station set-ups. I might just say now as far as our company is concerned

we do not have very many of that type of dealer outlet. As far as the service station goes, we have very few in Alberta.

Q Your service stations are principally properties which you own?

A Well, I would have to study the figures. We have the detailed figures here. I would not be prepared to say but we might summarize them.

Q It, perhaps, would be better if there was some summary of that to find out how many of these kind of cases-----as a matter of fact, I think the discussion might better wait until we see the whole statement, and you will present that to us?

A I would be glad to study that and submit it.

Q To what extent does your company finance dealers who do not run company-owned stations at all, just the ordinary dealer?

A We do more or less of that.

Q Financing?

A Yes.

Q What comes within the head of financing, what kind of financing do you do?

A We advance him probably a portion of the money required to expand his premises or create proper facilities for dispensing gasoline.

Q And you advance him that money without interest?

A No, with interest.

Q What rate of interest?

A 5%, I think.

Q And the payment spread over?

A 5 to 10 years.

Q That is for refurnishing and modernizing the premises and that sort of thing?

A Yes.

Q And painting the premises and so on. Those are premises in which you have no interest as owner at all directly or indirectly?

A That is right.

Q Can you tell me, to complete that I think it would be better to have it in figures, would it be difficult for Mr. Havelock to show that?

A No, you may have that. But you may have to wait to get that from Winnipeg. We have that in detail.

Q Has the North Star any plans for annuities or sick benefits and group insurance and so on for employees?

A We have a group life policy and we have group sickness and accident. We have no annuity.

Q Have you got that in the form of a booklet which contains instructuions respecting that or is it just an arrangement with an insurance company. I presume it is?

A Yes.

Q If we wanted to know any more detail upon that we might possibly be supplied with a copy of the group insurance policy?

A We have one with the Great West Life and sickness and accident with the Travellers, just two policies.

Q Have you people engaged in what is known as the credit card service?

A No. If some of our friends in Winnipeg come in to us and ask for a card we have a form which we sign and let them take with them. But we do not send out-----

Q That is very interesting. I would like to ask you about

that. You know nearly every other major marketer in Alberta does that?

A Yes.

Q And I always wondered why the North Star did not. What is the reason for that?

A In the first place, we have not got connections in the United States which permit us to give them a card which would be good in the States. And I am opposed to it personally because I think it is a lot of work for nothing.

Q Is it too costly, in your view?

A I would think it would be. I think that the tourist should have money in his pocket to buy his gasoline as he goes along.

Q But apart from the tourist - now, you have mentioned it it is so that the Texas Company and the British American and the Imperial all call attention to their credit cards, and to the fact that it is available with various companies in the United States. Well, the Texas Company their own and the other companies others. But apart from that do you think it would be a gallonage builder for you to issue credit cards even to ordinary local citizens?

A Oh, it does not appear to have been. We have been kind of listening in on that proposition. We have not had a great call for it. I do not suppose we have more than 40 or 50 out all together.

Q Are the commission rates to your agents all the same?

A Yes. You mean to all agents?

Q Yes, all your agents?

A They are practically at a standard rate of commission. There are a few exceptions, maybe four or five.

Q 2 cents?

A I do not know as there is any - I am thinking of our whole company - I do not know whether there are any exceptions in Alberta or not.

MR. HAVELOCK: There are about three major points.

A That is where commission has been adopted in lieu of salary.

Q MR. FRAWLEY: Do you do any truck hauling?

A Yes.

Q Will you express an opinion about this, what is your company's estimated cost per gallon of tank truck hauling, both long and short hauls?

A We usually figure per mile irrespective of the haul, for convenience. We have not attempted to break it down between a short haul and a long haul.

Q What is the figure?

A About 1.75 or 1¾ cents. I think you are using 2 cents, Alex. Does it run that yet?

MR. HAVELOCK: 1.75.

A 1.75, that is the actual cost.

Q MR. FRAWLEY: That is in connection with haulage by commission agents?

A No, our own trucks.

Q Where do you operate your own trucks in Alberta?

A We have one at Calgary here and one out of Edmonton.

Q Delivery from company-operated bulk stations, salary-operated bulk stations?

A We haul principally from the refinery from Calgary.

Q Oh, yes?

A We do not haul from the bulk points.

T. N. Clayton.

Q You have the privilege of taking your requirements away from the refinery in tank trucks?

A When I said "refinery" I should have said our own bulk plants.

Q Do you, by the way, go to the refinery direct with any trucks?

A No.

Q It all comes out in tank cars?

A Yes.

Q And in the case of Calgary it is switched to your warehouse and in the case of Edmonton it is sent by tank car to your Edmonton warehouse?

A Yes.

Q And in the Calgary and Edmonton districts you truck by your own trucks?

A Yes.

Q And the figure you are giving us is one you use in connection with these hauls?

A Yes.

Q MR. COMMISSIONER LIPSETT: Is that 1¾ cents per gallon?

A Yes, per mile of distance. That covers the return trip. It is 100 miles from here to Red Deer and it would be 1.75 cents per gallon or 1¾ cents per gallon.

Q I just was not quite clear on that, what exactly the 1¾ cents covered?

A That is one way. We compute that on the distance between the two points and it covers the return trip, which is empty, of course.

Q MR. FRAWLEY: It is 1¾ cents if you were trucking from Calgary to perhaps not as far as Red Deer, but from Calgary to Olds, 60 miles, you would figure your

truck cost 60 times 1¾ cents a gallon although he would come back empty?

A Yes.

MR. COMMISSIONER LIPSETT: 60 times 1¾ cents?

A Yes.

Q For how many gallons?

A That would be per gallon. That would make it a little over 1 cent. 1.05 cents, would it not?

Q MR. FRAWLEY: Mr. Havelock, would you put it on the record what your truck haulage would be for a 60 mile trip?

MR. HAVELOCK: That is taking a full truckload there and coming back it would cost us one and 5/100 of a cent.

Q MR. FRAWLEY: On what basis?

MR. HAVELOCK: 60 multiplied by $1.75.

MR. FRAWLEY: That is $1.75 per-----

MR. HAVELOCK: Per 100 gallons per 100 miles. We just multiply the miles by the rate. That is about 1 cent a mile;

MR. COMMISSIONER LIPSETT: It is $1.75 then?

A That is 1¾ cents per mile per 100 gallons. To haul 100 gallons 100 miles is $1.75.

MR. FRAWLEY: That is the basis?

MR. HAVELOCK: Yes.

MR. FRAWLEY: It is all worked out from that.

Q I do not suppose it costs any more to haul Ethyl gasoline because it has lead in it?

A Prohably not.

Q You sell a lot of gasoline in Southern Alberta, I mean really Southern Alberta, away down South of Lethbridge?

A Well, we sell some. I would not say we sell a lot.

Q You lose money on every gallon you sell down there, don't you, because of the freight?

A Yes. Well, we will be faced with the problem from now on.

Q Oh, yes, that is something you are going to learn about. It would be very interesting just on that that you make a statement to the Commission after you have independently studied this Southern Alberta situation. I think seriously that might be very useful for you to tell the Commission what you think some time. You might prefer to pull out of some of these points in Southern Alberta if you have because of this hauling and freight to meet this Montana determined tank waggon down there?

A Very likely.

Q You might say "I am not going to do it whether the Imperial wants to do it or not." I would like to hear something from you as to what you think of Southern Alberta after you have-----

MR. PORTER: Suffered from it?

MR. FRAWLEY: Yes, or even before suffering. You might not choose to suffer. Do you feel that the distribution of gasoline through service stations is sufficiently adequate to justify no further licences by the Province?

A Well, it seems evident that there are enough retail outlets. It would be pretty hard to contradict it.

Q Do you have what is called inland dealers in your organization?

A Very few.

Q That is a man that operates as a dealer in a town that is inland from the commission agent?

A Yes.

Q And you have to give him something better to hold the gallonage in the district?

A There is very few of those. Our policy is either to have a man an agent or a dealer, and to have it clean-cut if possible.

Q This fellow is really in between the two of them, isn't he?

A Yes.

Q You haven't in any of those?

A No, the gallonage is usually small.

Q I suppose Mr. Havelock could let us have a short schedule of what you have in the way of inland dealers and what it means in commissions paid?

A Yes.

Q Why do you have to charge 2½ cents more for Ethyl gasoline than for standard "Q"?

A You say why do we have to?

Q Yes?

A Well, I do not know that I can answer that question.

Q Do you think that there is a value, that there is 2½ cents difference in utility and quality in the two gasolines that justifies the 2½ cent charge which the poor consumer has to pay?

A I would not care to demonstrate. I do not know. There might be. I have never thought it out.

Q As a jobber you do not maybe have to suffer from a lot of the things that the integrated man has to suffer from?

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T. N. Clayton

And you see this is the thing I want made clear, you charge 2½ cents more for a gallon of Ethyl gasoline than for a gallon of lead-treated standard gasoline all over the Province of Alberta?

A Yes.

Q But when you buy that gasoline from the Imperial Oil Company in tank car, you do not pay them 2½ cents more for Ethyl than you do for the other?

A No.

Q Why not?

A Well the cost of distribution of Ethyl during the, up to the present time is probably higher than any other product; it has to be available to the consumer in all parts of the territory. The gallonage required does not justify bulk storage and therefore tank car movement, and most of it has to move in either tank trucks or drums and the cost of distribution is quite high. I think there must be many points that the 2½ cents does not repay us, whereas the "Q" gasoline or the green, moves generally in bulk.

Q Yes, but you see, take the Calgary stations only, tank waggon price, posted tank waggon price of "Q" gasoline, 16½ cents?

A Yes.

Q Posted tank waggon price on Ethyl 19 cents; you pay 10; cents for "Q" gasoline but you only pay 12 cents for the Ethyl, and you have a 7 cents margin on Ethyl, yes, you have a 1 cent more on Ethyl, you have a 7 cent margin on Ethyl, now----

MR. PORTER: As against the 6 on "Q".

Q MR. FRAWLEY: As against the 6 on "Q", now

the differential to the consumer is 2½ cents?

A Yes.

Q Now you say you need that difference to market it, because of what you call "inter-station transfers" of Ethyl in small quantities?

A Well some of that; we try to avoid that but the cost of distribution is some higher.

Q And that is why you have to have a slightly longer spread on the Ethyl?

A That is right.

Q But from the consumer's standpoint, why do you charge him 2½ cents more for the Ethyl gasoline than for the "Q"?

A Well a premium product usually carries a little heavier load in the way of gross profit than a standard product; in the case of the jobber it is really we have to have some product on which we make some money to offset the products which are sold probably at a loss.

Q Well that is perhaps the answer; that is perhaps fair enough; Ethyl gasoline I suppose is a luxury product, is it?

A Well----

Q It depends on the point of view I suppose?

A Yes.

Q But you feel it is fair to take, to use the Ethyl gasoline as a profit-marker?

A Yes, I do not see why not.

Q And that you are a little more, shall I say mindful of the consumers' interests when you are pricing the "Q" brand gasoline?

A Well that is the grade which he generally uses.

Q Yes, but it makes me wonder, and it warrants me putting this suggestion to you, how would it effect you as a jobber and marketer, to discontinue marketing Ethyl gasoline and only market one quality gasoline, to use that expression, of say an in-between octane number of about 74, what is your views on that?

A A 74 would not be adequate. You would have to, in fact octane is going upwards rather than down.

Q Yes?

A Your newer cars require at least 78 and it looks to me right now that it is going still higher.

Q What is your Ethyl gasoline run now?

A 78.

Q Of course you have some pretty stiff competition in octane number in Alberta, from the Texas Company?

A Yes.

Q But it has been suggested by some people that that is just an octane race?

A No.

Q What do you say about that?

A No, I do not think so.

Q You think, you do not think there is any vicious circle between the automobile manufacturers and the gasoline manufacturers to just keep running up the octane and running up the compression ratio?

A No. I think the automobile manufacture puts out a car that suits him and leaves it for the oil companies to put out a gasoline to suit the car.

Q You think the car came first and then the gasoline?

A That is the way it appears to me.

Q You do not think there was any, I do not mean diabolic

conspiracy, but you do not think there was any getting together in New York of the automobile people and the oil people to put the two things together?

A I am afraid my opinion on that would not be worth much.

Q You think then that we cannot get along with a 74 octane gasoline in Alberta?

A I certainly would not think so in Alberta, Mr. Frawley. We have, we have gone to an octane in Manitoba of 78, where we are almost all on the flat while here you have the hills to contend with.

Q We heard something about that too from the experts, that in Alberta, because we have a high altitude?

A Yes, there is that point I overlooked.

Q We can get along with about 7 octane numbers less than Vancouver, subject to this qualification of course that along with our altitude we have some hills?

A I overlooked that point. I might say in our own production in Manitoba we just adjusted the octane on Red Ethyl to 80, just this week.

Q To 80?

A Yes.

Q I would like to ask you something about that, you have a skimming operation there?

A Yes.

Q Using what kind of crude?

A Texas crude.

Q You are not using Turner Valley crude?

A Not just now.

Q You use that because it has more natural octane?

A Yes we use it for, went back to it for a number of reasons. We ran Turner Valley for about a year and the

problems presented were rather numerous and complicated and we felt we had better go back to the sweet crude until we had worked out something.

Q You bring in sweet crude from Texas?

A Yes.

Q And all you have is the straight run operation?

A Yes.

Q And what is that octane?

A About 55.

Q Of course that is a lot higher than Turner Valley, is it not?

A Yes.

Q And then you bring it up from 55 to, did you say 80, you bring it from 55 to 80 with how many c.c's of Ethyl?

A About 2½, 2.6.

Q Is there some limit you can use?

A Three c.c's is the limit.

Q And what, if you used the whole three c.c's, what would that Texas crude gasoline run in octane?

A I do not know what it would run. It might go past 80 but I do not think so.

Q That is where the race ends so far as you are concerned?

A Yes.

Q Unless you get the Ethyl companies to let you put in more maybe?

A You used the term "race". There is no race in one way, at least in Manitoba we do not advertise octane at all. There is nothing, no discussions with the consumer as to what the octane of gasoline is.

Q You mean the North Star?

A Yes, or the other companies either, there is no advertising.

Q Does not the Texaco news-cast carry as far as Winnipeg?

A I do not know that they are in Winnipeg.

Q Well anyway octane is not a high-light in Manitoba?

A No, so that the action we have taken was based purely on what we thought was necessary to meet the requirements.

Q And your own gasoline then that you are making, as you say, starting very recently, is about 80 octane and you are able to make that with the Texas crude and the Ethyl products?

A Yes.

Q Now I think that is all that I want to ask you about that, there is something more about crude, you are not using Turner Valley any more?

A No.

Q Setting aside the other technical difficulties, what was the comparison of the laid-in cost of Turner Valley crude with the Texas crude?

A Well it will lay in somewhat cheaper than----

Q The Turner Valley crude?

A Yes, the crude itself.

Q You certainly have nothing in the way of a favourable freight rate, moving that crude from Calgary to Winnipeg?

A It was 39 cents.

Q 39 cents a hundred?

A Yes.

Q Or about how much a gallon is that?

A A little over a dollar.

Q A little over a dollar a gallon?

A A barrel.

Q Yes, a barrel, but there is a favourable rate to Moose Jaw

and Regina?

A Yes.

Q Which was put in to meet the potential pipeline competition?

A Yes.

Q But there has been no extension of that so far as Winnipeg?

A No.

Q Or even Brandon?

A No.

Q So that you have had to shoot back on the producers in Turner Valley, the crude which you were buying?

A Yes.

Q But there are other reasons you say, technical reasons, couldn't they have been overcome?

A No doubt.

Q Do you think you could make, I will put the whole thing to you, do you think you could make 80 octane gasoline in your present plant in Winnipeg with Turner Valley crude and the Ethyl product?

A I doubt it. We are still working on that problem. As I said the thing is rather complicated, Manitoba has been shut in, meeting competition from the South and the East, and to handle Turner Valley crude we would have to put in a cracking plant and to put in a cracking plant, you would run your total capacity up beyond the point where we could market without shipping back towards the source of supply.

Q We have heard something about the Anglo-Canadian, they have a refinery operation at Brandon?

A Yes.

Q Is that a skimming operation or a cracking?

A They have just put that plant on stream.

Q They go into Winnipeg?

A Yes.

Q With standard gasoline, and Ethyl?

A I do not know if they come in with Ethyl. I suppose maybe they do.

Q And they use Turner Valley crude altogether?

A Yes.

Q And they have no favorable freight rate?

A No.

MR. FRAWLEY: I think that is all, Mr. Clayton. Thank you very much.

THE CHAIRMAN: Any question "Why the jobber at all".

Q MR. FRAWLEY: Oh yes, Mr. Clayton, as the biggest Imperial jobber in Alberta and perhaps as the biggest jobber in Alberta from any refinery, why does the marketing structure in Alberta need any jobbers at all?

A Well we feel that the jobber has his place in the oil industry. He always has had. The history of the oil industry would indicate he has a favourable position in the oil business. He is free to buy where he chooses; he is not compelled to market the product which he himself produces, which sometimes is a handicap and we feel that as his entire energies and activities are devoted to marketing, that he is perhaps as expert, and possibly more so, than the company whose efforts are diversified from producing to retailing.

Q Yes, well you know, you do not know anything about the Montana marketing situation at all?

A No, not personally.

Q

Q You see down there there are jobbers who do just what you mentioned, he buys where he chooses and he actually does, but I put it to you, most respectfully, you do not, you buy just from the Imperial Oil, Limited, and I put it to you that you are duplicating plant for plant the Imperial's sub-stations all over Alberta. Now as I say I put that to you in the most friendly way, and is that not detrimental to the whole marketing situation?

A You would hardly expect me to admit that, would you.

Q No, I would not want you to admit that your presence in Alberta is detrimental but trying to theorize about it from the standpoint of the necessity of the jobber operations of the kind we have here. Now if you were a jobber that went to the Imperial one day and bought your requirements and then the next day you went to the British American Oil Company and bought your requirements for that day,-now of course there are two sorts of weaknesses perhaps to that suggestion but let me put it to you, as this man clack does in Montana as I am told, he buys from one refinery and from another refinery, because there are six or seven refineries down there from which he can buy, if you went to the Imperial and bought and to the British American and bought and imported some from Montana, then we would have this independent jobber who perhaps is finding the lowest level both in buying and in selling but when you 365 days of the year simply take gasoline out of the Imperial Refinery in tank cars and then take it out into the country and put it down side by side with the Imperial's, all over Alberta, I suggest to you it is possible that that is a vicious duplication which is costly in the end to the

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consumer; now there may an answer to it, what do you think?

A Well you see, on what you call "duplications" is duplication necessary right there, as a matter of fact facilities are not all duplicated, as a matter of fact, in my opinion a very small portion is duplicated. You touched on the matter of steel barrels. The North Star steel barrel equipment does not duplicate the others; in fact the two together are at times inadequate to take care of the demand and the same might be said of the trucks and truck drivers. A truck can only handle so much gasoline in a year and the driver can only do so much work in the day. There may be some duplications of the warehouse facilities but after all the warehouse is only a very small part of our investment. Our average country warehouse reflects an investment of about $425.00 on railway property. I cannot conceive that the thing has reached even to the point where it is wasteful. You can hardly expect to revamp the entire oil business every time a change takes place in the source of supply, which is what you have here in Alberta, up to about three years ago all the companies in Alberta were jobbers. When we came here in 1909 it was all jobbers.

Q Mr. Clayton, I show you Exhibit "320" which is an attempt to show the amount of duplication in distribution in the Leduc area and your company is represented by the orange line, that orange line is your Leduc agent's route and the other lines are the routes for the other companies. Now do you think that that is, assuming that that is a typical thing, do you not think there is some wasted energy there that must be reflected in marketing costs?

A It would be very difficult to say to what extent that would

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reflect any marketing cost and therefore a cost to the consumer. We find that the most economical method of distribution is through the commission agent who devotes part of his time to the oil business and handles it in conjunction with the implement business or general hardware or something of that kind. If that is, how many have you there, five, those five or six agencies were all combined in one, which I presume you feel would be the ideal situation, you probably would have a salaried man in there and I venture to say your cost of distribution would be higher than they are today, through the commission agent.

Q Now three of those people, it happens to be there, the Maple Leaf, the North Star and the Imperial, take those, with respect to those three dealers, those three dealers, it is all Imperial gasoline out of the Imperial Refinery in Calgary?

A Yes.

Q And there they are, side by side?

A Yes.

Q And they happen to have the three best gallonages there, first Maple Leaf, then yourself and then the Imperial, that is just as good, you can say everything you have to say in reference to these, just as well as if you had the whole picture. Now you say there is nothing wrong, and when I say "wrong" I mean it in the broadest sense, there is nothing wrong in having those three Imperial arms you might say in that one town, all going out after the same business, all with a truck set-up, all going down the same road together, perhaps following each other down and so on, now I do not know, but is that inevitable, Mr. Clayton, in your opinion,

as the biggest jobber in Alberta?

A I do not know just where you would draw the line; obviously it would not be much use adding to that, mind you, I do not want to say any more than that.

Q That is something?

A That is the question.

Q Let me suggest this to you, supposing that the Imperial Oil Company could assure itself and this may be the answer to my question, the answer, supposing the Imperial Oil Company could assure itself of every gallon that the North Star Company is now selling through its outlet and every gallon that the Maple Leaf is selling through its outlet, they could assure themselves of it passing to the Imperial Oil agency there, now just assuming that, although you may not think it is logical to assume that?

MR. PORTER: Why argue from an untenable premise?

Q MR. FRAWLEY: I know, but the answer to it is that the assumption is a wrong one?

MR. PORTER: Of course it is in the light of experience.

MR. FRAWLEY: But if that assumption were correct, would it not be right and proper for the Imperial to market that gasoline itself?

A The Imperial agent would not hold one-half of that.

Q That is the whole answer and that is what I wanted to bring out. You say if the North Star Oil Company pulled out of Leduc tomorrow, the Imperial Oil Company would simply lose that gallonage and it would go to the Gas and Oil Products, or perhaps to some new man altogether, that is, you say that is your definite opinion I take it?

A I think so.

Q And if the Maple Leaf, their own subsidiary, was taken out of Leduc, was taken out of Leduc tomorrow, the Imperial would not even hold that gallonage?

A Well from my experience in the business I would doubt it.

Q You would doubt it?

A I do not know the local situation of course.

Q No, but I mean that is what happens, you cannot just simply turn off the Maple Leaf tap and turn it all into the Imperial Oil station or similarly with the North Star?

A No.

Q MR. PORTER: While you are on that point if I may, on this item of duplication, Mr. Clayton, that picture presupposes that 7 or 8 companies have facilities working side by side and that there is therefore a duplication. Now can you take your initial statement in this Exhibit, page 1, "summary of investment in Alberta" and can you give us roughly the figures showing the things in there which are either not related to the jobber business or would be necessary if any one organization had the whole business in the Province?

A The first largest item we have there is "steel barrels $246,000".

Q That is 246 thousand?

A Yes, and if we add to that the trucks and automobiles, we have $302,000; if we add the retail outlets to that $138,000 we get $440,000 out of the $708,000.

Q $440,000 out of $708,000?

A Yes.

Q MAJOR LIPSETT: What do you mean by the retail outlets?

A The service stations. I presume they would be included in considering our position as a jobber.

Q MR. PORTER: They are not part of the jobber's business?

A No.

Q MR. FRAWLEY: I want to be sure I follow you, you mean if the North Star Oil Company were not in operation in Alberta----

MR. PORTER: If the jobber went out of business there would $440,000 of this capital working anyway.

Q MR. FRAWLEY: Now you say, would you go over that again, Mr. Clayton, what capital would be working if you were not distributing as a jobber at all?

A I took the steel barrels and the automotive equipment as $302,000 and added to that the investment in service stations.

Q Why add the drums, take one at a time, why do you say that that would be necessary?

A I say that because our drums work overtime if anything and if we were out of the picture somebody else would have to put up that amount of equipment.

MR. PORTER: No surplus of drums.

Q MR. FRAWLEY: Oh it may be that this drum business is all wrong and that the Commission might recommend that the farmer bring his own drums?

A You would still have to have drums.

MR. PORTER: You do not abolish the jobber by abolishing the drum situation. We are dealing with the real situation in which drums are used, 240 odd thousand

dollars of them.

Q MR. FRAWLEY: You say all drums are needed and if you went out of business that the company getting that gallonage would have to, would probably go to you and buy the drums and add to their own capital investment?

A Yes.

Q Now what else?

A I included the retail outlets.

MR. PORTER: The service stations.

Q MR. FRAWLEY: Of course I do not know how they are going to buy those drums while you have them all out in the country?

MR. PORTER: It does not matter whether they buy them or use them. They could buy new ones and use them in the business. It is necessarily a capital investment.

MR. FRAWLEY: The North Star customers probably have them.

(Go to number 11,651)

T. N. Clayton

MR. FRAWLEY: Anyway though, there are just some further difficulties of taking the jobber out of the marketing picture.

Q MR. PORTER: Then there is an item in here for your bulk plants which represents storage facilities. Now, would some of that storage facility have to be duplicated or taken over if jobbers were put out of business?

A Our business is highly seasonal. That is, there is a great peak in August, September, and October as compared with the winter months. I think that it would be fair to state that the reserve storage throughout the country is for a large part necessary in taking care of the requirements during the threshing season. Without that it would be almost impossible to take care of the business which would have to be taken care of by increased drum equipment or increased trucking facilities, or in some other manner.

Q Which some, a part of that bulk plant, costing $226,000.00 would have to be replaced by some alternative storage in the hands of any marketing structure?

A I think that is fair.

Q So that there should be added to the $440,000.00 some allowance for added storage?

A Yes, Sir.

MR. COMMISSIONER LIPSETT: Would you ask him, Mr. Porter, to explain to us exactly the method of working these bulk plants and these other outlets, from this company's point of view?

T. N. Clayton

MR. PORTER: I did not know there was any interest in that.

Q You might explain why your bulk plants, and how they operate?

A Well, these bulk plants usually consist of two tanks at some country point in which we carry two products which are predominantly used in that area. Generally speaking, some tractor fuel and some green gasoline or "Q" gasoline. The other 4 or 5 products required such as Ethyl gasoline or Turner Valley products, lighting naphtha, kerosene, and so forth, are brought into the agency by truck which we can bring in approximately at tank car cost. The agent then distributes all his trade, dealer trade and farmer trade from these facilities. The farmer of course buys by the drum.

Q MR. COMMISSIONER LIPSETT: Then when you come to the barrel stations, what are there, 42 barrel stations?

A Those are stations at which the demand for any single product does not justify shipping in tank cars. The stock is brought in by tank truck or by drum from the main distributing point, Calgary or Edmonton.

Q Are they wholesale distributing points also?

A Well they would take care of the farm trade in that area.

Q Chiefly farm?

A Yes.

Q And these service stations now, 16 of them I think are company-owned?

A Yes.

Q Are they entirely your property and run by your employees?

A Well they usually leased to the operator.

T. N. Clayton

Q There are 25 of them, 16 company-owned and 9 leased. All of these 25 are leased you say as a rule to the operator?

A Yes.

Q And you sell him the gasoline, taking out your wholesale commission, and then he puts on his 4¢ spread or whatever it is?

A Yes.

Q And you take none of the profits out of those service stations as stock?

A No.

Q Just the rental?

A Yes.

Q MR. PORTER: Just one more question. You do buy Quaker State and distribute it all across Western Canada?

A Yes.

Q You do not buy that from the Imperial Oil Company?

A No.

Q You also have quite a business, I understand, in kerosene?

A Yes,

Q Premium kerosene which you sell all across the West for lighting?

A Yes.

Q You do not buy that from the Imperial Oil?

A No.

Q That is a different quality from what is available in Canada at all?

A Yes.

T.N. Clayton

Q MR. FRAWLEY: Where do you buy that?

A We either make it in Winnipeg or import it into some of the southern sections of Saskatchewan.

Q The reason you do not buy from the Imperial is because you can make it more cheaply yourselves at Winnipeg?

A We feel it is a better product than the Imperial is able to turn out from Turner Valley crude.

Q MR. PORTER: You sell that all over the West, I understand, don't you?

A We sell it in Saskatchewan and Manitoba.

Q MR. MELTABARGER: I would like to ask the Witness one or two questions. Going back to this Exhibit at Leduc. Do you feel that if all the marketers, from your experience, would you say if all the marketers in the Leduc area were eliminated except the Imperial Oil they would not have to put on the same number of trucks to make that same delivery? Do you think they would be able to effect any saving in truck delivery by virtue of the fact they transfer the business to themselves?

A I rather doubt it. As I said, we have found the commission arrangement is the cheapest form of distribution.

Q Do you feel that these trucks are all used essentially in making delivery and that therefore regardless of whether they are operated by the Maple Leaf or the North Star or Gas & Oil Products, the Imperial to take care of the same business, would have to duplicate them?

A I would think so, we find our agents are usually under-trucked. They usually need other transportation in high season.

T. N. Clayton

Q Now, on Ethyl gasoline you have 1¢ a gallon additional margin on Ethyl. Mr. Frawley asked you the question why did you charge 2½¢ additional for Ethyl, is the fact that is costs you 1½¢ more, is that correct?

A Yes.

Q And you have 1¢ additional to operate on. Do you feel that 1¢ a gallon more than covers that additional cost of operation of distributing over "Q" Brand?

A No, when we take the whole territory into consideration.

Q In other words, you do not make more from a gallon of Ethyl than you do of "Q" Brand?

A No, probably less.

Q Mr. Frawley asked you in connection with commercial consumers and why if a commercial consumer went to a service station and purchased at 2½¢ a gallon profit to the operator, instead of 4½¢ in Calgary, the service station operator should not sell all his gallonage at that price, at 2½¢ profit. Would it not be logical to assume if he gave the commercial consumer gasoline at 2½¢ profit, it would be all the more reason why he would have to get 4½¢ profit on his other business in order to stay in business?

A Yes.

Q And secondly, is it notafact that a station operator running a business with a definite volume as he would have at any particular time to take on a commercial account that would give him 50 gallons or 100 gallons a day he could probably handle that additional business at 2½¢ and make a little profit on it,

Mr. Clayton

[illegible] in asking permission from here to mention [illegible]
[illegible] on this. Mr. Clay asked for the [illegible]
[illegible] you about the additional [illegible] in the last
[illegible] it seems [illegible] that [illegible]
[illegible].

[illegible] have [illegible] additional to [illegible]. [illegible]
[illegible] [illegible] more than covers [illegible]
[illegible] question of [illegible]
[illegible]. [illegible] the [illegible] by [illegible].
In other words, you [illegible] make [illegible]
[illegible] them [illegible]?

[illegible], [illegible] easily [illegible].

[illegible]. She [illegible] asked you [illegible]
[illegible] whether [illegible] commercial [illegible] went
[illegible] negative attitude [illegible] and did [illegible]
[illegible] the [illegible] bridge. [illegible] [illegible], this
[illegible] whether [illegible] and [illegible] if [illegible]
[illegible] would [illegible] [illegible]. [illegible] [illegible]
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[illegible] would, [illegible] [illegible] [illegible] by no means
[illegible] [illegible] [illegible] [illegible] [illegible]
etc.; [illegible].

[illegible]

[illegible] [illegible], [illegible] [illegible]
[illegible] [illegible] [illegible] [illegible]
[illegible] [illegible] [illegible] [illegible]
[illegible] [illegible]

rather than let it go by the board and let it go elsewhere?

A Well, we are obliged to assume he is satisfied or he would not take it.

Q In other words, he has his costs fixed anyway and he could probably take on a little additional gallonage at a smaller profit and still he could not handle his whole station at any less than he is getting?

A We find it is impractical to supervise every operation of the operator. He is operating on a certain margin and it is up to him to handle his business within that margin.

Q Do you give the commercial consumer the undivided dealer price because he buys on the same basis as the undivided dealer, or do you just give it to him out of the goodness of your heart?

A No, we give it to him because we find our competitors are doing that.

Q To meet competition. You stated that your marketing costs have been reduced in the past ten years from 6¢ a gallon to approximately 4¢ a gallon, or a reduction of 2¢. Has that reduction been made in the face of decreasing costs of operations, taxes and other costs over which you have no control?

A Taxes certainly would be higher and other items probably lower.

Q Your reduction, if it were not for the fact that minimum wage laws required you to pay more wages or other conditions required that, and that materials cost you more because of

sales taxes and so forth, than they did ten years ago, and that other taxes are very much higher than ten years ago, that your reduction would be more than 2¢ a gallon in operating costs, is that correct?

A That is correct.

Q In other words, this does not represent the actual picture of your increased efficiency?

A No.

Q Mr. Frawley asked you if the consumer could look in the future to a reduction in the price of gasoline by virtue of the North Star operations. Where would such a reduction have to come from? Where would any reduction in price from the North Star have to come from?

A It would have to come from lower marketing costs.

Q As far as the North Star?

A Yes.

Q And beyond that, where would they have to come from?

MR. FRAWLEY: You do not need to go far beyond that.

A The cost of the product itself, naturally.

Q MR. MELTABARGER: The lower marketing costs would depend on whether or not taxes increased, would it not?

A Naturally.

Q And whether labor costs increased. In other words, that is a factor beyond your control?

A Yes.

Q MR. COMMISSIONER LIPSETT: Mr. Clayton, I want to get a little more from you about this refinery in Winnipeg.

You did try Turner Valley crude, did you?

A We ran for about a year on Turner Valley crude, yes.

Q And what price were you paying for Turner Valley crude when you were experimenting?

A I think it was $1.42 loaded at Calgary. That was $1.22 plus 15¢ plus 5¢. 15¢ pipeage and 5¢ handling.

Q At that time were you able to buy it in competition with Texas crude?

A Well, we anticipated we could run it in competition with Texas crude, yes. We anticipated to be able to do that when we switched over to Turner Valley crude?

Q Who are you buying your Texas crude from now?

A Largely through brokers.

Q Where do those brokers operate?

A They are located in Texas, Houston, or some point in Texas.

Q Are you buying from one of the major companies the production?

A No. These companies usually turn their products into the pipe line and of course naturally our crude moves by tank car and we usually have to go to the smaller producer to get that.

Q What reduction in the price of Turner Valley crude would enable you to compete with Texas crude at the present time?

A That question is almost impossible to answer because we would have to add to our plant to enable us to handle Turner Valley crude.

Q Is it by reason of having to be a higher octane gasoline now than during the year you were using it?

A No, I would not say that exactly. We had some trouble with all products. Of course, the kerosene you make from Turner Valley crude is not a satisfactory burning oil. We also had trouble with Diesel fuel and domestic fuel oil. We had in our earlier years built up a good business in domestic fuel oil in Winnipeg. The last year we ran into quite a bit of difficulty with the Turner Valley product, a difficulty which even up to the present time we have not solved.

Q Is that due now to your own equipment that you would require-----

A Not entirely. We have not found anybody else who could tell us what is wrong or that can show us how to make it right.

Q Is not the Imperial Oil and the British American making those products now in Calgary with Turner Valley crude?

A I do not know to what extent they may be selling it for domestic fuel oil purposes. I think it is rather limited.

Q What I was rather putting to you, Mr. Clayton, is whether the difficulty in Winnipeg is due to the competitive price of the product or whether it is due to your equipment which would require some addition to make it suitable?

A I would say it is probably due to both. You see, at the time we started to run Turner Valley crude I believe the Imperial was shipping their Regina product right into that territory and it would have been logical to expect that we might be able to secure part of the Winnipeg market. Well, to-day Imperial are shipping as far West as Portage out of Sarnia. Now, that area is not being taken

care of by the Turner Valley product.

Q Of course, the freight rate on the refined product from Regina east is much greater than the freight rate on crude. What I was trying to get from you is a picture as to whether it would be possible, with a properly equipped refinery at Winnipeg, to use Turner Valley crude in competition with American crude oil?

A Well, we hope to be able to do so. We have not given up the matter at all.

Q Even on the present price of $1.30 you think it could be done?

A It might be done, yes. When it comes down to distributing from Winnipeg to-day we are practically confined to Winnipeg proper and just a small area around there.

Q Did you get some special price on Turner Valley crude when you were getting it at $1.42?

A No.

Q Because the price, I think, never was lower than $1.30, was it, at the field price, and pipe line on top of that?

A Well, my memory may have failed me on that but I can get that figure for you.

MR. COTTLE: $1.30 is for 48 gravity.

A We were getting about 42. I am sure it was $1.22.

MR. COTTLE: That would be for 44 gravity, which would be the average pipe line run at that time.

MR. COMMISSIONER LIPSETT: Even with the existing pipe line rate?

A The pipe line rate was 15 cents.

MR. COTTLE: And loading was 5 cents?

A Yes.

MR. COTTLE: The average price to-day is about $1.20 and not $1.30. The average gravity to-day is

43 instead of 48. At the time Mr. Clayton was buying the gravity would have been about 44, which would be $1.22 and not $1.30.

MR. COMMISSIONER LIPSETT: If there is any further help or information you could give us, Mr. Clayton, in reference to the use of Turner Valley crude in Winnipeg it certainly would be very interesting?

A We are anxious to use Turner Valley crude. It cost us a lot of money last year to more or less experiment with it. We reached the point where we felt we would have to find out more about it and learn from our own researches and other people's experience before we invested in the plant and that is where the thing stands to-day.

Q Apparently here at Calgary two refineries, two major refineries and in Moose Jaw and in Regina and now in Brandon are using it, and it seems to be a suitable raw material?

A Oh, yes.

Q And I was wondering if you could give us any further particulars as to whether that market could be extended in some way to Winnipeg assuming there was an up-to-date refinery with the proper equipment?

A I do not see why it should not be. We expect to do it before another year or two.

MR. FRAWLEY: At Mr. Cottle's suggestiom I am going to ask Mr. Clayton to be good enough to have a statement prepared showing the comparative costs of the Texas crude laid in at Winnipeg and Turner Valley crude. Starting with the field, name the field you get it from, the gravity, the various transportation charges to bring it to Winnipeg, and similarly with Turner Valley, and

then we could have it there for us?

A All right.

MR. MACLEOD: My Lord, Mr. Meltabarger would like to correct something.

MR. FRAWLEY: Mr. Meltabarger wants to make a short statement correcting something he said.

MR. MELTABARGER: In connection with the specifications. I mis-read the Imperial Oil's specifications. I find now after looking at them again that their specifications are on a comparable basis, but just differently arranged than the specifications that are used by us, but they are perfectly intelligible.

(At this stage the Hearing was adjourned until 9:00 A. M. 20th July, 1939.)

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V. 104

J. J. FRAWLEY

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The Province of Alberta

IN THE MATTER OF THE PUBLIC INQUIRIES ACT

—and—

IN THE MATTER OF a Commission, dated the 12th day of October, A.D. 1938, to inquire into matters connected with Petroleum and Petroleum Products

Commissioners:

The Honourable MR. JUSTICE McGILLIVRAY
(*Chairman*)

—and—

L. R. LIPSETT, ESQ.

Session:

CALGARY, Alberta July 20th, 1939

VOLUME 104

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I N D E X

Page

VOLUME 104 - July 20th, 1939

WITNESS:

Harry Wesley Kaley, sworn.....11,664

E X H I B I T S

EXHIBIT 495
Submission on behalf of the Ethyl Corporation presented by the witness Kaley.....11,665

EXHIBIT 496 (a) (b) and (c)
Two photostatic copies and one type-written copy of Canadian patents held by the Ethyl Corporation 11,666

EXHIBIT 497 (a) (b) (c) (d) (e) (f) (g) (h) (i) (j) (k) (l) (m) (n) (o) (p) (q) (r) (s) (t) (u) (v) (w) (x) (y) (z) (aa)
These are photostatic copies of the Ethyl and "Q" contracts existing between the Ethyl Corporation and the Canadian Oil companies as enumerated on page 11672 of the record.....11,675

EXHIBIT 498
A file of letters and acceptance forms produced by the witness Kaley modifying the provisions of the Ethyl licence and sales agreements. (Canadian).....11,680

EXHIBIT 499
Document similar to Exhibit "498" only having reference to the "Q" contracts.....11,680

EXHIBIT 500
Standard form of agreement for the manufacture of Ethyl gasoline issued by the Ethyl Gasoline Corporation.....11,681

EXHIBIT 501
Similar standard form of agreement in reference to "Q" brand.....11,681

EXHIBIT 502
Photostatic copies of Ethyl Corporation's contrac s with jobbers.....11,684

EXHIBIT 503
Regulations for handling and mixing Ethyl fluid.....11,686
(by means of tank equipment)

EXHIBITS (Continued)

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EXHIBIT 504 Regulations for handling and mixing Ethyl fluid (by means of barrel equipment).....	11,686
EXHIBIT 505 Blue-prints and specifications covering tank types sused for handling and mixing Ethyl fluid.....	11,687
EXHIBIT 506 Blue-prints and specifications for drum installation plants for handling and mixing Ethyl fluid by means of barrel equipment.....	11,688
EXHIBIT 507 Folder containing five photographs of tank installation.....	11,688
EXHIBIT 508 Folder containing five photographs of drum installation.....	11,688
EXHIBIT 509 Plate to be placed on vending pumps indicating gasoline containing Tetraethyl lead.....	11,690
EXHIBIT 510 Photostatic copy of the registration of the current and principal Ethyl trade-mark.....	11,694
EXHIBIT 511 Booklet entitled "Sparks, Octanes and Performance" issued by the Ethyl Corporation.....	11,694

(C. S. Blanchard, Esq. K. C., appeared for the Ethyl Corporation.)

MR. BLANCHARD: I think the witness, Mr. Chairman, should perhaps be sworn and proceed with his statement to a certain point and I might say, Mr. Chairman, that I am with Mr. D. G. McKenzie, K. C., for the Ethyl Corporation. Mr. McKenzie is confined to the house today and has been for several weeks and I am not sure whether he will be here before this chapter is finished or not.

MR. FRAWLEY: The only difficulty I had about that, I understood, I am quite agreeable to deal with it in any way that you suggest, Mr. Chairman, but I thought the picture part of it was off the record, that it more or less had to do , however, if it can be made part of the record----

THE CHAIRMAN: There is no objection to proceeding with the picture then?

MR. FRAWLEY: Perhaps Mr. Blanchard's suggestion is the better one.

THE CHAIRMAN: Certainly the picture cannot be part of the record.

MR. BLANCHARD: Unless the Board sees fit to ask us to put in the film , which might be run at some future time with a projection machine for the further information of the Board.

THE CHAIRMAN: My concept of the usefulness of this was that we might better understand the evidence which is to be given.

MR. BLANCHARD: I think so.

THE CHAIRMAN: I do not think we can make any attempt to put this in as part of the record. It is merely for our information.

MR. FRAWLEY: At the same time if Mr. Kaley can usefully make a statement before he runs the film----

MR. BLANCHARD: Well I do not think he could describe the film in any way. Possibly in view of what the Chairman has said we had better run the film in the first place.

THE CHAIRMAN: Well are you all ready to run it?

MR. BLANCHARD: There is a great deal of matter in the film which is extraneous to this Inquiry, Mr. Chairman, but I think it will be useful.

THE CHAIRMAN: You are ready to run it, you state Mr. Blanchard?

A Yes.

(Moving picture film here shown to the Commissioners).

::::::::

HARRY WESLEY KALEY, having been first duly sworn, examined by Mr. Frawley, said:

Q Mr. Kaley, you live in New York City?

A In Garden City which is a suburb of New York.

Q We have not yet found one of these New York men that live in New York City. Your business is what, Mr. Kaley?

A Ethyl Gasoline Corporation.

Q And what is your capacity?

A I am General Sales Manager.

Q General Sales Manager?

A Yes.

Q You are professionally what, in addition to being General Sales Manager?

A Petroleum Engineer.

Q You are here to make a submission to this Commission with respect to the operation of the Ethyl Gasoline Corporation in the Province of Alberta?

A So far as I can, yes.

Q Mr. Blanchard,K. C., is acting for you?

A Yes.

Q MR. BLANCHARD: Mr. Chairman, Mr. Kaley has prepared a statement, more or less condensed, covering in a general way the operations of the Ethyl Gasoline Corporation, describing the nature of the product they manufacture and its usefulness in connection with fuels used for automobiles engines, internal combustion engines and I was going to suggest if the Board approves that Mr. Kaley can read that and then he can elaborate certain portions of the evidence afterwards?

THE CHAIRMAN: Very good.

(SUBMISSION OF THE ETHYL CORPORATION HERE PRODUCED AND MARKED EXHIBIT "495").

The Ethyl Gasoline Corporation is a corporation organized and existing under the laws of Delaware, United States of America, and has its principal offices in the Chrysler Building in New York City, It will mostly hereafter be referred to as "the Company."

It is the exclusive licensee under certain patents and under such exclusive licenses has

the right to license others to manufacture, use and sell the licensed products. The Canadian patents under which it operates chiefly are as follows:

Canadian Patents 256,353
256,354
290,586

Copies are attached hereto.

MR. BLANCHARD: Mr. Chairman, I think we had better put in the patents at this point. I suppose the three patents can go in as one Exhibit.

MR. FRAWLEY: I would think so.

WITNESS: I have photostatic copies of two of them and a copy of the third.

MR. FRAWLEY: You have them separately, perhaps they had better go in separately.

MR. BLANCHARD: The first two----

THE CHAIRMAN: You can use letters, Mr. Frawley, they can be marked Exhibit "496" a, b, c.

(PATENTS, PHOTOSTATIC AND A COPY, HERE PRODUCED AND MARKED AS EXHIBIT "496" A, B, and C)

WITNESS:

These patents cover:

(a) Fluid hereinafter described;

(b) Improved motor fuel comprising gasoline and fluid which is higher in anti-knock value and thus more efficient than the gasoline from which it is made.

The Company, for a number of years, engaged in the production and sale of anti-knock compounds referred to as "Ethyl" brand of Anti-Knock compound and "Q" Brand of Anti-Knock compound for use in Motor fuels.

The resultant treated fuels are sold throughout the United States and Canada and in some of the principal countries in the world, for automotive use and throughout the world for aviation.

The anti-knock compounds usually referred to as "Ethyl" or "Q" fluids for use in automobile gasoline are practically of the same composition and are referred to hereafter as "fluid." The fluid is composed of:

Tetraethyl lead
Ethylene dibromide
Ethylene dichloride
Kerosene, dye, etc.

The addition of fluid does not change measurably the purity, distillation characteristics or vapor pressure of the gasoline to which it is added, but in reducing or preventing knock, controls the combustion characteristics. Gasoline, when knocking is present, burns abnormally, increasing engine temperatures and wasting energy which cannot be absorbed by the crankshaft. Most power is obtained in modern high compression engines when the gasoline burns evenly.

The active anti-knock ingredient of fluid is tetraethyl lead. Tetraethyl lead is a oil soluble liquid compound of lead, its chemical composition indicated by the formula Pb (C_2H_5), radical taken four times.

Tetraethyl lead is manufactured through the reaction between an alloy of lead and sodium and the chemical compound ethyl chloride. The alloy is first prepared by melting together pig lead and sodium, allowing the resultant product to cool and harden, then

crushing to suitable size in a hammer mill. The reaction of the alloy with ethyl chloride takes place in a pressure vessel called an "autoclave." Tetraethyl lead is steam distilled from the resultant mass, washed with water, separated form the water, and finally filtered.

To explain the position and use of fluid in the petroleum industry, it is necessary to describe briefly the manufacture of gasoline. Speaking generally, gasoline is produced by all or some of the following processes:

(1) Straight Run Gasoline or Naphtha. Crude oil is distilled and the distillate boiling within the range of gasoline is separated from the higher and lower boiling constituents. Such gasoline is known as Straight Run Gasoline or Naphtha.

(2) Cracked Gasoline. All or some of the portions of the products of higher boiling range than gasoline are subjected to high temperatures and usually high pressures and under those conditions are partially converted into products boiling in the gasoline range. This process which may be carried out under widely varying conditions is known as "cracking," and the gasoline so produced is known as Cracked Gasoline.

(3) Natural Gasoline or Absorption Gasoline. Gasoline is produced by compressing natural gas, thus condensing out some of the gasoline vapors usually contained therein, or by scrubbing natural gas with oil, thus absorbing some of the gasoline vapors. Gasoline produced by such processes is known as Natural Gasoline or Absorption Gasoline and is generally a very volatile product.

(4) Reformed Gasoline. Straight run gasoline or naphtha may be modified in chemical composition by subjecting it to heat and pressure under conditions similar to those in cracking. Such a process is known as "Reforming" and the product is called Reformed Gasoline.

(5) Polymerized Gasoline. Gases formed in the refining process and natural gas may be subjected to treatment which results in chemical reactions which form gasoline from these gases. Such a process is known as "polymerization" and the product is known as Polymerized Gasoline.

Each of these five types of gasoline has its own chemical and physical properties and the refiner usually blends them or some of them into one or more commerical grades depending upon his own marketing set up.

(1) Straight Run Gasoline or Naphtha, has an anti-knock value which depends on the nature of the crude oil from which it was made. This may be quite high in the case of a limited number of crude oils, 70 octane number or better, and as low as 30 octane number in a limited number of other cases.

(2) Cracked Gasoline, The anti-knock value of cracked gasoline depends on the nature of the crude oils and the nature of the cracking process, but mainly on the latter. It is usually higher than that of the straight run gasoline

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from the same crude and may range as high as 70 octane number and sometimes as high as 72 or 73 octane number but usually does not exceed 68 or 69 octane number.

(3) Reformed Gasoline, the anti-knock value of reformed gasoline is always higher than that of straight run gasoline and may be made very high. Usually, however, the higher the anti-knock value obtained the greater the loss in the form of gas.

(4) Natural Gasoline or Absorption Gasoline, the quantity of which is limited by the amount of natural gas available, varies in anti-knock value with the source and being extremely volatile is used for blending with other gasolines to give them increased volatility.

(5) Polymerized Gasoline, is usually of very high anti-knock value, 80 octane number or better, but the amount which any refinery can produce is limited to the amount of refinery or natural gases available.

In practice, there is a wide variation in the procedure which different refiners select from producing gasoline of high anti-knock value. Some companies find it is most economical to do as little as possible of cracking and reforming, thus producing at first a gasoline of low anti-knock value and to add thereto a relatively large amount of fluid. Other refiners find it more economical to do more cracking, reforming and polymerizing and to add little or no fluid to the gasoline.

High anti-knock values may be and are also obtained by the addition to gasoline of benzol and alcohol.

The Company does not manufacture, refine or sell any gasoline. It manufactures the anti-knock fluid and sells the same to licensed refiners to be mixed by the latter with their gasolines intending that the treated gasoline shall be used as a motor fuel.

Each applicant for a license to manufacture and market treated gasolines is investigated by a representative of the Company. This investigation covers the question of business integrity, record of the past and probable business continuity, financial responsibility, type and condition of refinery, available railroad facilities, distribution methods, quality of base gasoline, etc. All applications for licenses to manufacture and market treated gasolines are considered on their own individual merits and the election of the Ethyl Gasoline Corporation to issue or decline to issue such license is based on the facts pertaining to the individual applicant.

The Company has licensed the following refiners to market treated gasoline in the Province of Alberta.

COMPANY		CONTRACT
Anglo-Canadian Oil Company, Limited operating Anglo-Canadian Oils Limited,	The contracts are,	Ethyl Q
Bell Refining Company		Ethyl Q
British American Oil Company, Limited		Ethyl Q
Canadian Oil Companies, Limited		Ethyl Q
Gas and Oil Products, Limited		Ethyl Q
Gulf Refining Company		Ethyl Q
McColl-Frontenac Oil Company, Limited		Ethyl Q
North Star Oil, Limited		Ethyl Q
Shell Oil Co. of British Columbia, Limited and Shell Oil Company		Ethyl Q
Shell Oil Company of Canada, Limited		Ethyl Q
Standard Oil Company of British Columbia, Limited		Ethyl Q
The Texas Company and any and all present and future subsidiaries of the Texas Corporation		Ethyl Q
Transit and Storage Company, acting for Imperial Oil, Limited		Ethyl Q
Union Oil Company of California		Ethyl
Union Oil Company of Canada, Limited		Ethyl

MR. BLANCHARD: Mr. Chairman, we have here photostatic copies----

A Would you pardon me for a moment, Mr. Blanchard.

Q Yes?

A This list was made up in January and I have one addition to make, since that time we have entered into a license and sales agreement with the Lion Oils,Limited, of Calgary, and that should be added to the list.

Q Yes?

A Pardon me.

Q As a matter of fact the Lion Oil Company of Calgary has not yet operated under its license and sales agreement?

A That is correct but the license is in existence.

Q And has been executed?

A Yes.

MR. BLANCHARD: Mr. Chairman, I have photostatic copies of all the licenses and sales agreements to refiners that have been listed. I do not know whether Mr. Frawley desires me to put them in or put in a standard form of agreement.

MR. FRAWLEY: If you have them all there it would only take a few minutes.

WITNESS: All but the Lion, Mr. Frawley, and we would be glad to send you that. We made this out in January and we forgot to bring it up-to-date.

Q MR. FRAWLEY: All right, the first one is with the Anglo-Canadian Oil Company, Limited, operating Anglo-Canadian Oils, Limited.

THE CHAIRMAN: We will do the same and use letters.

MR. FRAWLEY: Very well, sir.

WITNESS: I might say that is for the "Q".

Q There is one of each, is there?

A Yes.

THE CHAIRMAN: Of course if they are not going to be referred to separately they could be put in as one Exhibit., but if they are going to be discussed in evidence individually, then they should have separate numbers, I mean separate letters.

MR. FRAWLEY: Yes. I think it might perhaps be well, you mean separate letters.

THE CHAIRMAN: Yes.

MR. FRAWLEY: If they are to be referred to they should be lettered.

THE CHAIRMAN: If they are to be referred to separately in the evidence they should then have letters.

MR. FRAWLEY: I think they might be. There might be one or two that we might want to refer to. I only see one for this Anglo-Canadian, only the "Q".

A The both should be there.

MR. BLANCHARD: It might have gotten out of order.

WITNESS: Perhaps I have it, no, it should be there.

MR. BLANCHARD: Here is the duplicate.

MR. FRAWLEY: Yes, this is the Anglo-Canadian Ethyl Contract.

WITNESS: It must have been omitted by mistake.

MR. FRAWLEY: Then Exhibit "497" (a) will

be Anglo-Canadian Oil Company's Ethyl Contract.

(ANGLO-CANADIAN ETHYL CONTRACT PRODUCED AND MARKED AS EXHIBIT "497" (a).

MR. FRAWLEY: Exhibit "497" (b) the Anglo-Canadian "Q" Contract.

(ANGLO-CANADIAN "Q" CONTRACT PRODUCED AND MARKED AS EXHIBIT "497" (b).

MR. FRAWLEY: We will take the other Alberta companies first, the Gas and Oil Products. I am inclined to think what I have here are the "Q'S" but in any event the Gas and Oil Products, Limited, "Q" Contract---

MR. BLANCHARD: Here is the Ethyl.

MR. FRAWLEY: All right, I will put in the Ethyl first, the Gas and Oil Products, Limited, Ethyl Contract.

(GAS AND OIL PRODUCTS LIMITED ETHYL CONTRACT PRODUCED AND MARKED AS EXHIBIT "497" (c).

MR. FRAWLEY: The Gas and Oil Products, "Q" Contract.

(GAS AND OIL PRODUCTS "Q" CONTRACT PRODUCED AND MARKED AS EXHIBIT "497" (d).

MR. FRAWLEY: The Bell Refining Company, Limited, Ethyl Contract.

(BELL REFINING ETHYL CONTRACT PRODUCED AND MARKED AS EXHIBIT "497" (e).

MR. FRAWLEY: The Bell Refining Company, Limited, "Q" Contract.

(BELL REFINING "Q" CONTRACT PRODUCED AND MARKED AS EXHIBIT "497" (f).

MR. FRAWLEY: The British American Oil Company, Limited, Ethyl Contract.

(BRITISH AMERICAN ETHYL CONTRACT PRODUCED AND MARKED AS EXHIBIT "497" (g).

MR. FRAWLEY: The British American Oil Company, Limited, "Q" Contract.

(BRITISH AMERICAN "Q" CONTRACT PRODUCED AND MARKED EXHIBIT "497" (h).

MR. FRAWLEY: The Shell Company of Canada, Limited, Ethyl Contract.

(SHELL COMPANY OF CANADA ETHYL CONTRACT PRODUCED AND MARKED EXHIBIT "497" (i).

MR. FRAWLEY: The Shell Company of Canada, Limited, "Q" Contract.

(SHELL COMPANY OF CANADA "Q" CONTRACT PRODUCED AND MARKED AS EXHIBIT "497" (j).

MR. FRAWLEY: The Shell Company of British Columbia, Limited, Ethyl Contract.

(SHELL COMPANY OF BRITISH COLUMBIA ETHYL CONTRACT PRODUCED AND MARKED EXHIBIT "497" (k).

MR. FRAWLEY: The Shell Company of British Columbia, Limited, "Q" Contract.

(SHELL COMPANY OF BRITISH COLUMBIA "Q" CONTRACT PRODUCED AND MARKED AS EXHIBIT "497" (l).

MR. FRAWLEY: The McColl-Frontenac Oil Company, Limited, Ethyl Contract.

(MCCOLL-FRONTENAC ETHYL CONTRACT PRODUCED AND MARKED EXHIBIT "497" (m).

MR. FRAWLEY: The McColl-Frontenac Oil Company, Limited, "Q" Contract.

(MCCOLL-FRONTENAC "Q" CONTRACT PRODUCED AND MARKED AS EXHIBIT "497" (n).

MR. FRAWLEY: The Texas Company. Well now I think we will leave that for the last, please. The North Star Oil Company, Limited, Ethyl Contract.

(NORTH STAR ETHYL CONTRACT PRODUCED AND MARKED EXHIBIT "497" (o).

MR. FRAWLEY: The North Star Oil Company Limited, "Q" Contract.

(NORTH STAR "Q" CONTRACT PRODUCED AND MARKED AS EXHIBIT "497" (P.)

MR. FRAWLEY: The Canadian Oil Companies, Limited, Ethyl Contract.

(CANADIAN OIL ETHYL CONTRACT PRODUCED AND MARKED EXHIBIT "497" (q).

MR. FRAWLEY: The Canadian Oil Companies, Limited, "Q" Contract.

(CANADIAN OIL "Q" CONTRACT PRODUCED AND MARKED EXHIBIT "497" (r).

MR. FRAWLEY: Union Oil Company of Canada---

MR. BLANCHARD: That is just an Ethyl, there is only the one.

MR. FRAWLEY: The Union Oil Company of Canada, Ethyl Contract.

(UNION OIL ETHYL CONTRACT PRODUCED AND MARKED EXHIBIT "497" (s).

MR. FRAWLEY: The Union Oil Company of California, Ethyl Contract only.

(UNION OIL COMPANY OF CALIFORNIA ETHYL CONTRACT PRODUCED AND MARKED AS EXHIBIT "497" (t).

MR. FRAWLEY: Now we have not got the Imperial Oil.

MR. BLANCHARD: It is the Transit and Storage Company, acting for the Imperial Oil.

MR. FRAWLEY: Oh I see, that is their license; the Transit and Storage Company acting for Imperial Oil, Limited, Ethyl Contract.

(TRANSIT AND STORAGE, IMPERIAL OIL, ETHYL CONTRACT PRODUCED AND MARKED EXHIBIT "497" (u).

MR. FRAWLEY: The Transit and Storage Company, acting for the Imperial Oil, "Q" Contract.

(TRANSIT AND STORAGE, IMPERIAL OIL, "Q" CONTRACT PRODUCED AND MARKED EXHIBIT "497" (v).

MR. FRAWLEY: Then what else have we got?

MR. BLANCHARD: The Standard Oil Company of British Columbia, Limited.

MR. FRAWLEY: The Standard Oil Company of British Columbia, Limited, Ethyl Contract.

(STANDARD OIL COMPANY OF BRITISH COLUMBIA, ETHYL CONTRACT PRODUCED AND MARKED EXHIBIT "497" (W).

MR. FRAWLEY: The Standard Oil Company of British Columbia, Limited, "Q" Contract.

(STANDARD OIL COMPANY OF BRITISH COLUMBIA, "Q" CONTRACT, PRODUCED AND MARKED EXHIBIT "497" (x).

MR. FRAWLEY: Then the Gulf Refining Company, Ethyl Contract.

(GULF REFINING, ETHYL CONTRACT, PRODUCED AND MARKED EXHIBIT "497" (y).

MR. BLANCHARD: And there was no "Q".

MR. FRAWLEY: Then the Texas Company, a Delaware Corporation, the Ethyl Contract.

(TEXAS COMPANY, ETHYL CONTRACT PRODUCED AND MARKED EXHIBIT "497" (z).

MR. FRAWLEY: And the Texas Company, a Delaware Corporation, "Q" Contract.

(TEXAS COMPANY, "Q" CONTRACT, PRODUCED AND MARKED EXHIBIT "497" (aa).

MR. BLANCHARD: That is all we have until we put in the Lion Oils.

(Go to number 11,680)

H. W. Kaley

MR. BLANCHARD: There are some letters and specifications that were amending and modifying some of the agreements that were entered into some years ago. At present, Mr. Chairman, there is a standard and uniform contract to all refiners and these contracts were modified from time to time till they have reached the present current form that is used and which is uniformly used for all. We have prepared copies of all the amendments made to these various contracts to make them uniform. They are now uniform, the present standard form of contract which we will put in.

MR. FRAWLEY: Then I think this can go in as one Exhibit.

MR. BLANCHARD: That applies to Ethyl only and this is "Q".

MR. FRAWLEY: Exhibit "498" is called "Letters and Acceptance Forms Modifying Provisions of the Ethyl Lisense and Sales Agreement(Canadian)Issued Prior to date Appearing on the Letter."

(DOCUMENT IN QUESTION IS NOW MARKED EXHIBIT "498")

MR. FRAWLEY: And the next Exhibit is the same with respect to the "Q" contract.

(DOCUMENTS IN QUESTION ARE NOW MARKED EXHIBIT "499")

A You understand, Mr. Frawley, that these letters apply to all existing contracts at the time they were sent out. I mean by that none of them applied to individual contracts. Some of these contracts submitted go back as far as ten years.

Q Yes?

A And these are the changes that have been made at various times

H. W. Kaley

which bring them up to date. In other words, these old contracts with these changes in those letters make them our standard form of contract which we offer today.

Q In other words, they are circular letters?

A Yes.

Q They all open "Dear Sir" or "Gentlemen"?

A That is correct.

Q And they are prepared applicable to all your contractees, but you sent them out separately?

A Yes.

Q THE CHAIRMAN: You have a standard form?

Q MR. FRAWLEY: You now have a standard form?

A Yes, Sir.

Q We will put that in. This is just a form?

MR. COMMISSIONER LIPSETTE: Exhibit "499" is the same in reference to "Q" Brand?

MR. FRAWLEY: Yes, that is right. Now, Mr. Kaley offers a standard form of agreement for the manufacture of Ethyl.

(DOCUMENT IN QUESTION IS NOW MARKED EXHIBIT "500")

MR. FRAWLEY: And the standard form of agreement, the present standard form of the agreement for "Q".

DOCUMENT IN QUESTION IS NOW MARKED EXHIBIT "501"

Q Does this mean if we wanted to find out merely what these provisions were if we look at the two forms, Exhibit "500" and "501" we will find out?

A These are the forms of contract that are currently offered right now.

H. W. Kaley

Q THE CHAIRMAN: These amending letters brought the other contracts up to the point where they are just like that?

A Yes, Sir.

Q MR. FRAWLEY: So that for simplicity's sake if we wanted to know what the British American current arrangement with you was, we need only look at Exhibit "500" and Exhibit "501"?

A That is correct.

Q And not bother looking at the original contract plus the amending letters?

A Well, it would save you time to look at that Exhibit "500" and Exhibit "501". That is exactly the contract which the Lion Oils Limited hold right now.

Q The new one?

A Yes, Sir.

Q Exhibit "500" and "501"?

A Yes, Sir. Because theirs was issued very recently.

Q THE CHAIRMAN: Theirs is for both?

A Yes.

Q MR. FRAWLEY: So that really we need hardly have the Lion Oil Company's actual contract?

A No.

The treated gasoline is sold in part through wholesale and retail outlets owned by licensed refiners, in part to licensed jobbers for resale to retail dealers and consumers and in part to independent retail dealers for resale to consumers.

Each applicant for a jobbers' (distributors') license is investigated by a representative

H. W. Kaley

of the Ethyl Gasoline Corporation. This investigation covers the question of business integrity and distribution methods. The Company has licensed the following jobbers to distribute treated gasoline, purchased from licensed refiners, in the Province of Alberta:

Lion Oils Limited
Calgary, Alberta

Maple Leaf Petroleum Limited
Calgary, Alberta

Peter A. Noullet
Jasper, Alberta

Union Oil Company of Canada Limited
Vancouver, British Columbia

Oughton Brothers
Calgary, Alberta

Artic Oil Sales Limited
Lethbridge, Alberta

Bell Distributing Company Limited
Edmonton, Alberta

Crystal Gas and Oil Products
Calgary, Alberta

Economy Oils Limited
Calgary, Alberta

Gas and Oil Products Limited
Calgary, Alberta

Gold Standard Oils Limited
Wainwright, Alberta

Great West Distributors Limited
Calgary, Alberta

Hi-Way Refineries Limited
Regina, Saskatchewan

Signal Oil Company Limited
Vancouver, British Columbia

Blank forms of refiners' and jobbers' licenses currently offered to applicants are submitted.

H. W. Kaley

MR. BLANCHARD: We have those photostatic copies, Mr. Chairman, of these jobbers' contracts if Mr. Frawley desires to put them in.

MR. FRAWLEY: I would suggest, Mr. Kaley tells me they are all the same, and for my part I would be content to put them in as one Exhibit.

THE CHAIRMAN: All right.

DOCUMENTS IN QUESTION ARE NOW MARKED EXHIBIT "502"

Q MR. FRAWLEY: Why are they pinned together? There is one for Ethyl and one for "Q"?

A Yes, Sir:

Q 25 contracts entered into?with the people that Mr. Kaley has just listed covering in some instances Ethyl and "Q" and in some instances, one of the two products.

A That is correct.

Q MR. BLANCHARD: Mr. Kaley, are those in conformity with your standard form as used now?

A Yes, Sir, entirely so.

Q So that I think there would be no purpose in putting in the standard forms?

A I have them here if you want them. But I do not see any such necessity because these are standard.

Q There is no difference as there was in the other?

A No.

Sales of treated gasoline may be made either by a refining licensee or a jobber licensee, by tank wagon to dealers without the necessity of any license agreement between the Ethyl Gasoline Corporation and the dealer.

H. M. Kaley

At the beginning of the business there was not as much knowledge of the hazards connected with the manufacture, transportation and handling of the fluid as was subsequently acquired. Because of this lack of knowledge, a number of cases of lead poisoning took took place in the manufacturing operation. A medical department of the Ethyl Gasoline Corporation was formed to study the hazards involved and to set forth a procedure which would eliminate such hazards in the future. A Commission was appointed by the Surgeon General of the United States to make a study of the hazards which might be associated with the business. The Company suspended business for one year pending this investigation. The Commission decided there were no known hazards to be guarded against provided certain recommended rules and reulations of the Surgeon General were carried out. The Company's medical department thereafter made rules and regulations embodying those recommended by the Surgeon General, and is continuing a study of the health problem encountered in the handling of the fluid and treated gasoline. It has formulated certain rules and regulations which it believes constitute the minimum precautionary measures for the safe handling, transportation, mixing and use of the fluid and the treated gasoline.

In addition to the activities of the medical department, the Company has established a staff of trained engineers who periodically inspect all equipment used in the blending of fluid with gasoline to see that such equipment is constructed and maintained in strict

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accordance with the rules and regulations of the medical department.

Strict adherence to the rules and regulations has prevented further accidents, even though the quanitity of fluid handled today is infinitely greater than when the accidents occurred. Regulations for the handling and mixing of fluid have been issued by the medical department and copies of the regulations for adding the fluid to gasoline by means of barrel equipment and by means of bulk tank equipment are produced herewith.

MR. FRAWLEY: Mr. Kaley offers a booklet of regulations for handling Ethyl fluid in tanks, at refineries. That is a refinery operation?

A That is right. And tank car is the means of transportation in that case, too.

Q MR. BLANCHARD: We sell only to the refiner?

A That is correct.

THE CHAIRMAN: A book of regulations described how?

MR. FRAWLEY: Regulations for handling and mixing Ethyl fluid in tanks by means of tank equipment.

(DOCUMENT IN QUESTION IS NOW MARKED EXHIBIT "503")

MR. FRAWLEY: And a booklet "Regulations for Handling and Mixing Ethyl Fluid by Means of Barrel Equipment."

(DOCUMENT IN QUESTION IS NOW MARKED EXHIBIT "504")

The Company does not sell fluid to any persons other than refiners of gasoline.

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The fluid is shipped from its manufacturing plants at Deepwater, New Jersey, and Baton Rouge, Louisiana. The same price is charged for the fluid to all licensed refiners irrespective of the amount pruchased. The fluid is delivered in specially built tank cars and drums and the process of treating gasoline with fluid is a mixing process at the receiving point. There the fluid is added to gasoline by means of specially designed equipment which accomplishes the unloading and mixing operation (through a closed system in the case of bulk type equipment for receiving tank cars) entirely by vacuum.

The building and equipment constituting the plant at which the fluid is unloaded, handled and mixed by the refiners with gasoline is required by the Company to be built in strict compliance with blueprints issued by it.

A I would like to submit blueprints and specifications for the two types of equipment.

MR. BLANCHARD: The proper order would be tank installation and then the drums.

MR. FRALEY: This is numbered as Number 4250 "Weigh Tank Installation". That is the installation?

A And then there are the plans.

Q These are blueprints and specifications covering the tank types which as you have described..... We will put in as Exhibit "505". It relates to the handling and mixing by means of tank equipment which is Exhibit "503"?

A Yes.

(BLUEPRINTS ETC. ARE NOW MARKED EXHIBIT "505")

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Q Mr. Kaley, you describe it?

A They are blueprints and construction details for constructing and installation of the tank type.

Q For refineries?

A Yes.

Q And this is the same thing, blueprints and construction data for.....?

MR. BLANCHARD: I do not think there is any construction data there, is there?

A It is given right on the front.

Q I beg pardon?

Q MR. FRAWLEY: For the drum installation plant. It relates to Exhibit "504" Regulations for Handling and Mixing Ethyl Fluid by Means of Barrel Equipment.

(BLUEPRINTS ETC. ARE NOW MARKED EXHIBIT "506")

Q Then Mr.Kaley offers a folder containing five photographs of the tank installation.

(PHOTOGRAPHS IN QUESTION ARE NOW MARKED EXHIBIT "507")

MR. FRAWLEY: And another folder containing five photographs of drum installation.

(PHOTOGRAPHS IN QUESTION ARE NOW MARKED EXHIBIT "508")

All important fittings for handling fluid are furnished by the Company, thus eliminating the use of non-standard parts and insuring use of safe and proper fittings by the refiner.

The 8,500 gallon and the 4,250 gallon bulk type mixing installations are sold to refining licensees at a cost of $1,900 and $1,400 respect-

ively. In offering them at this price, the Ethyl Gasoline Corporation absorbs a proportion of their actual cost. In the case of drum installations, the Company supplies, without cost, the educator assembly to the refinery. The refiners bear all construction expenses with either type of installation. It is difficult to give any construction and equipment estimate because this depends on varying local conditions, cost of equipment, labor and other variables. However, a fair average cost for building and equipping (exclusive of the tankage or pipe lines necessary) the barrel type plant is $3,500 and for the 4,250 gallon bulk type plant is $8,500.

The equipment of the refiner for mixing the fluid with gasoline must be approved by field engineers and the medical department of the Ethyl Gasoline Corporation. The operators of the equipment are carefully selected and thoroughly trained in the handling of the fluid. The mixing of fluid with gasoline represents the greatest potential hazard, and because of this, the Ethyl Gasoline Corporation insists on adequate equipment and makes sure, to the best of its ability, that this equipment is operated exactly in accordance with the letter and the spirit of the rules and regulations.

Because mixing the fluid with gasoline can be accomplished with greater safety by using the bulk type equipment, and also because it is believed that there is less transportation hazard in the handling of a single container of fluid, the Ethyl Gasoline Corporation has endeavored to have refiners take delivery of the fluid in tank cars. However, where the fluid

requirements are small, it is impracticable to do this and in such cases shipment is made in 55-gallon drums. The railroad authorities have established a standard freight rate for the transportation of fluid. It may be shipped in sealed box cars providing a minimum of sixteen drums is carried. Under no circumstances may fluid be shipped in railroad cars containing any other commodity.

Specifications contained in the contracts of refining licensees provide for the maintenance of certain high qualities in treated gasolines. The minimum octane number for gasoline treated with Ethyl fluid (Ethyl gasoline) is 78 octane number. There is no minimum anti-knock specification for gasoline treated with "Q" fluid (non-premium gasoline). In practice, the anti-knock quality of Ethyl gasoline ranges from 78 to 81 octane number and the anti-knock quality of non-premium treated gasoline is 70-72 octane number. The Ethyl Gasoline Corporation maintains a number of testing laboratories to insure the maintenance of high quality Ethyl gasolines.

All pumps through which treated gasoline is sold must display a notice which reads as follows:

"For Use As a Motor Fuel Only

CONTAINS LEAD

(Tetraethyl)"

MR. FRAWLEY: Do I understand this plate, which will be Exhibit "509", this plate with the following words upon it "For Use As a Motor Fuel Only. Contains Lead, Tetraethyl. Made in U. S. A.", do I understand the same plate goes on the "Q" pump as well as the Ethyl pump?

A It may be placed on either. They are inter-changeable.

(PLATE IN QUESTION IS NOW MARKED EXHIBIT "509")

H. W. Kaley

Q Your instructions are, of course, that these plates be placed on those pumps?

A Yes, Sir. Any pump through which treated gasoline is sold. In the case of Island pumps, that is where a car may approach a pump from either side, it should be placed on both sides facing the driver.

Q Facing the driver of the car?

A That is correct.

Q Is it not primarly so that the vendor won't sell it for clothes cleaning purposes and that sort of thing?

A The is correct. But in these specifications as I recall reading them the Surgeon General said that that should be placed on the side facing the car and should be placed between 4 and 5 feet above ground so as to reach the eye-level of the driver.

Q It is both a warning and an invitiation, is it? If you were placing it so that the driver could see it, why do you think the Surgeon General would do that? I do not suppose he would be very much concerned with how much you were going to sell?

A Not at all. It was a warning not to use it for cleaning and that sort of thing.

Q MR. COMMISSIONER LIPSETT: Does that notice go up on both pumps, the 'Q' pump and the Ethyl pump?

A Yes, Sir.

The Ethyl Gasoline Corporation has a trademark, the main part of which is the word "Ethyl" and this trademark is used for Ethyl gasoline and the Company has, by the quality of the product sold as

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Ethyl gasoline, built up a reputation for high quality gasoline and has acquired a goodwill which is of the greatest importance to the maintenance of its business. Each pump through which Ethyl gasoline is sold must display the trademark of the Ethyl Gasoline Corporation.

MR. BLANCHARD: I do not know, Mr. Chairman, whether Mr. Frawley desires to put in the trademark or not.

MR. FRAWLEY: Oh, you have.....?

MR. BLANCHARD: We have one there that shows the design.

MR. FRAWLEY: We are making a pretty complete job of putting in everything you have. That might as well go in if they are not too voluminous.

MR. BLANCHARD: They are photostatic copy.

A They are all our trademarks. We have certain ones with just the word "Ethyl" and then again with the trademark design.

Q MR. FRAWLEY: "Ethyl Gas", you do not use that now?

A No. Some of them are old.

Q Pick out your current trademark.

MR. BLANCHARD: If we put in that sheet.

MR. FRAWLEY: Yes, and Mr. Kaley says that is his trademark We might call this your current and principal trademark?

A Yes, Sir.

Q This will do, I think.

A That is the best one.

MR. FRAWLEY: Mr. Kaley offers a photostatic copy of the registration of the current and principal

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Ethyl trademark?

A That is correct.

(DOCUMENT IN QUESTION IS NOW MARKED EXHIBIT "510")

The Ethyl Gasoline Corporation does not keep records of the premium charged for Ethyl gasoline at various points, however, it is cognizant of the fact that premium differentials vary. Observation indicates that the general premium for Ethyl gasoline over regular gasoline at the following places is as follows:

All of these Canadian points will be in Canadian gallons, and I might interject the fact too that these figures were given to us in January. They might have changed by now.

Halifax	Imperial Gallons	2	cents
Montreal	" "	2½	"
Toronto	" "	2	"
Winnipeg	" "	2½	"
Regina	" "	2½	"
Calgary	" "	2½	"
Edmonton	" "	2½	"
Vancouver	" "	2	"

The United States figures are given in U. S. gallons.

Seattle	United States Gallons	3	"
San Francisco	" " "	3	"
Spokane	" " "	3	"
Chicago	" " "	2	"
Minneapolis	" " "	2	"
Detroit	" " "	2	"
New York City	" " "	2	"

New Orleans	United States	Gallons	2	cents
Dallas	"	"	2	"
Denver	"	"	2	"
Great Falls	"	"	2	"

The Ethyl Gasoline Corporation has no control, nor does it influence the prices for treated gasolines charged by the refiner, the jobber, or the retailer.

It is not the policy of the company to issue licenses to United States refiners to export gasoline treated with fluid into Alberta. Many requests for such licenses have been denied. The only exceptions to this policy have been made where United States refiners have affiliated or subsidiary companies in Canada, through which the treated gasoline is sold.

MR. BLANCHARD: Mr. Chairman and Mr. Frawley, there is a booklet, a guide book, which is published by the Corporation and may be useful to the Commission in furnishing cuts and showing the internal combustion chambers and describing a number of the matters that have been mentioned.

MR. FRAWLEY: Yes, I will be glad to have that. This is a booklet entitled "Sparks, Octanes and Performance", a guide book for the man who wants to get the most from modern automobiles and fuels.

(BOOKLET IN QUESTION IS NOW MARKED EXHIBIT '511")

Q MR. BLANCHARD: Mr. Kaley, in reading some of the evidence I have noticed frequent reference to the term "Octane number", but I have not seen it defined anywhere. Would you give the Board a definition of that term?

MR. FRAWLEY: I heard Doctor Brown define it in Ottawa one day, and he did it in 15 minutes without stopping.

A I can do it faster than that, but probably not as well, Mr. Frawley.

Q MR. BLANCHARD: Yes?

Q The term octane number is merely a yard-stick for measuring the anti-knock value of gasoline. I might say it came into being about 1931 or 1932 because of the fact that refiners had no way of setting up reference fuel which would be just as good today and ten years from now. In other words, they did not have a supply of chemically pure products which when combined would give a certain anti-knock value. For that reason, the octane number scale was discovered and consists of a mixture of iso-octane and normal heptane. Now iso-octane is a very good anti-knock material. It is practically without knock. Normal heptane is a bad knocker, or a bad knocking material. A combination of these two will give a fuel of a certain anti-knock value which can probably best be described by example. If we had 70% iso-octane and 30% normal heptanne, we have a resultant fuel which would be 70 octane number. Now if we had a gasoline which when operated on a knock-testing engine was just equal in anti-knock value to this combination of the two, that gasoline would be 70 octane number.

Q I think that is described on Page 21 of that booklet, Mr. Chairman.

(Go to Page 11,696)

H. W. Kaley

Q Now will you describe what is meant by compression ratio, I think it was shown in the figure as being ---

A Compression ratio of an automobile is the ratio of the volume within the combustion chamber. When the piston is at bottom, dead centre, when the greatest amount of volume is available in the combustion chamber to the point, or to the volume when the piston is at top, dead centre. If when the piston is at the bottom we have a volume of, let us say, 5 pints, but when the piston is at top, dead centre, the charge has been squeezed to one pint, we will say, we have a 5 to 1 compression ratio.

Q I think that is described on Page 11 with the diagrams, Mr. Chairman. Mr. Kaley, will you describe the relation of low octane and high octane gasolines in motor performance and why a relatively high octane gasoline is required to efficiently operate a high compression engine?

A When gasoline is burned in an internal combustion engine, certain gasolines have a tendency to burn too rapidly; for instance, when the charge is condensed in the combustion chamber and ignited by the spark plug , the fuel tends to burn quickly in all directions from the spark plug ; as it burns across the combustion chamber it sets up a very high pressure and of course the temperature rises at the same time. This burning causes very high pressure and temperature, high temperature, in the unburned portion. Now when a gasoline is of low anti-knock value there is something about it, and it never has been satisfactorily explained, that causes that

gasoline to break down behind the flame front and to explode or burn very rapidly of its own volition. Now that is knock. It sets up very high pressure waves at that time and they beat against the top of the piston, the sides of the combustion chamber and that is what we hear and call "knock". Now when that is taking place the energy from the gasoline and from the hit produced, or from the hit produced by the gasoline, gives the impulse to the piston on its power stroke as a blow, a hammer-like blow. Now let us turn to a higher anti-knock fuel, the same conditions occur up to the time of ignition but we have a steady burning across the combustion chamber without any spontaneous burning at the opposite end, setting up no pressure waves, therefore the energy from it, from the gasoline, applies itself to the piston in a steady push throughout the greater distance of piston travel; those are a semi-technical explanation of it. If you would like to think about it in every day terms it is always easier to move anything by pushing it than to hit it a blow.

Q I suppose when this detonation takes place in the combustion chamber that there is a loss of power and efficiency and eventual damage to the parts that are affected by that explosive force?

A A severe detonation raises the temperature above normal; it wastes power because it is applied in an inefficient manner to the piston; severe detonation is very harmful to spark plugs, it may crack the porcelain and it is

harmful to what you might say is the receiving end of the blow, the bearings, the crank-shaft bearings, the connecting rod bearings and so forth.

Q Can adjustments be made to the engine, for instance in the timing, the carburetor, by retarding the spark, to overcome a knock of that kind without using a high octane gas?

A Yes.

Q That can be done?

A Yes, by retarding the spark one can very easily eliminate the knock tendency of the gasoline but at the expense of losing power, performance, efficiency; now that is very easily described. If we recognize that ignition should take place just before the piston reaches its uppermost point, I say just before, because the gasoline must have a little time to burn and theoretically the time that the power should be applied to the top of the piston is just at the point when it begins to push down. Now if we retard the spark we may retard it to a point after the piston has reached its uppermost point and started down and consequently if our available space of the combustion chamber is larger we do not get the same knock. However, I would liken it to pushing a swing. The proper time to push somebody rising on a swing would be on the far point of the arc; in other words, when the swing reaches its end of the arc that is the time to exert the pressure back and if you wait until the swing reaches the end of the arc and startsdown, you have lost a certain amount of the energy or the force which you should put into it. That, I believe, explains that.

Q Yes. Now you mentioned in your statement, high octane gasoline can be produced by intensive cracking and you also mentioned the addition of benzoil or alcohol to affect the octane rate, to raise it, can you tell the Commission the percentage of gasoline sold in the United States and Canada that is treated by lead?

A The percentage of domestic consumption, and when I say "domestic" I mean the United States and Canada, is about 80% treated with lead, that is either Ethyl fluid or "Q" fluid; to break this down a little further, about 72% of the gasoline sold in the United States and Canada is treated with "Q" fluid and around 8% treated with Ethyl fluid.

Q Is there any difference in the tetraethyl lead that is used in the Ethyl brand of gasoline and the "Q" brand of gasoline?

A There is absolutely no difference in the two fluids, as far as their octane ingredients are concerned. There is a difference in the dye, which is red for Ethyl, premium gasoline, and any other staining color selected by the refiner for his non-premium leaded gasoline. The reason for our naming the two fluids, one Ethyl and one "Q " was merely to differentiate the types of gasoline which they should be used in, Ethyl in the premium gasoline and "Q" in the non-premium.

Q THE CHAIRMAN: But your product is just the same?

A Yes.

Q MR. BLANCHARD: Except as to the dyes?

A Except as to the dyes. As a matter of fact, we ship the fluid out and they make both grades of gasoline by the same fluid but adding the red dye for their Ethyl.

Q MAJOR LIPSETT: It is a matter then just of the quantity of ethyl which is used?

A The quantity depends, Mr. Commissioner, on what you start with. You have a certain grade of gasoline to start and you use the quantity to reach the desired result. Now you might have to add as much as two or three c.c.'s to a gasoline because it had a certain quality of base stock to start with. You might only have to add a half a cubic centimeter to reach the same point with another gasoline.

Q But with the same crude, take the Imperial or the British American here in Calgary, the difference between the standard gasoline that they produce and the Ehtyl gasoline that they produce, is it just in the extra quantity of Ethyl fluid that is put in the Ethyl gasoline?

A Well I think there are several points of difference there. I do not know offhand how much lead they put in but I believe what you have in mind is, does the Ethyl necessarily contain more fluid than the non-premium.

Q Yes.

A Is that right?

Q Yes.

A The answer is that it does not necessarily contain more because you must take into consideration the quality of the base gasoline you start with; as an example, if we were going to make a 70 octane number gasoline out of a base stock which was, let us say 50 or 55 octane number,

and this is merely an assumption because we cannot say how much lead would be necessary without going to the anti-knock testing engines, but let us suppose that required maybe 3 cubic centimeters of lead. You would have used then 3 cubic centimeters of lead to arrive at the 70 octane number but let us suppose you start with a 65 octane number and you want to make 78 Ethyl, you might only use 1½ to 2 cubic centimeters of lead to reach that point of 78; therefore you would have two gasolines, a non-premium containing 3 c.c's of lead but only 70 octane number, as contrasted to the Ethyl only containing 2, but 78 octane number, so it is all a question of what the quality is you start with, of the base gasoline, and what you want to arrive at as the finished product. Do I make myself clear?

Q Yes, but supposing you started with a 65 octane?

A Yes.

Q Primary product?

A Yes.

Q And you decided you wanted to bring that to 72 and also to 78 for two different products, is that then just a question of the extra Ethyl fluid to bring it to the 78 as distinct from the 72?

A Yes, that is correct. That would be the case there, you would use a lesser amount, just enough to get the 72 as compared to enough to get you up to 78; what I was explaining in that example is really an outside case. Usually you put more lead in to arrive at Ethyl gasoline than you do to arrive at the red-treated gasoline. As a

matter of fact our fluid lead content for Ethyl premium gasoline for the United States and Canada is about 2.52 cubic centimeters of lead per U. S. Gallon; for lead non-premium it is about .9 cubic centimeters per gallon, so you can see for Ethyl it takes almost three times as much lead.

Q That is assuming the same start-off point?

A That is the average of all gasolines in the United States and Canada, .9 for non-premium and 2.5 for premium.

MAJOR LIPSETT: Thank you.

Q MR. BLANCHARD: Now, is there any limitation on the quantity of lead that is permitted to be used in treating gasoline?

A 3 cubic centimeters of lead per gallon for the U. S. gallon; 3.6 cubic centimeters for the Imperial gallon.

Q And no more lead than that can be used in treating the gasoline?

A That is correct.

Q So that if the 3.6 cubic centimeters of lead applied to a certain gasoline does not bring you up to the octane number you are trying to reach, why nothing can be done about it except to change your base stock?

A That is correct.

Q MAJOR LIPSETT: That chemical factor has nothing to do with Government regulations, has it?

A Not so far as your Canadian Government is concerned. It so happens, and I will try to be brief about this, it so happens that at the time the investigation was made in the States, fluid costs, that is Ethyl fluid cost 1 cent

per cubic centimeter and 3 cubic centimeters was used largely from the economic factor, that they got 3 cents a gallon for it, that is over and above the price for ordinary fuel so that at the time the investigation was made by the Surgeon General the only thing they had to work with was gasolines which contained 3 c. c.'s of lead and so for that reason they came back and gave us a clean bill of health on the sale of the products and they said "it would be perfectly all right for you to go ahead and sell it so long as you hold to the maximum of 3 cubic centimeters of lead". Now that might have been more or it might have been less but it just so happened that their controls had been working with gasolines containing 3 c. c. 's of lead and they found them to be all right, so they said "all right, stay with this 3 c. c. 's of lead".

Q THE CHAIRMAN: You were speaking of what was usual in the United States, comparing the Ethyl premium gasoline with the "Q" brand?

A I said the average for both the United States and Canada was .9 c. c. 's for the U. S. gallon in "Q" and in Ethyl 2.5.

Q MR. BLANCHARD: Would it be correct to say that in the main the base stock of the Ethyl gasoline is of higher quality than the base stock used for "Q"?

A Generally speaking the base stock for Ethyl gasoline is not only higher in anti-knock value to start with, before any lead is added, but usually it is a better gasoline from other points of view also. It is usually more volatile

and by that I mean it will vaporize easily, it should start your car a little easier in the winter time; it never contains harmful sulphur or gum which you might find in the lower grades of gasoline; it never has too high a vapor pressure which might bring about conditions of vapor-lock in the carburetor, so that it usually is a better, all round gasoline to start with before the fluid is added to it.

Q Yes. Now who determines, when you are selling to a refiner, who determines what quantity of lead should be used in the treatment of a certain specific gasoline; as I understand it the gasoline base, the straight run gasoline is different in different fields and even different in the same field, how do you determine how much lead is to be used in any particular gasoline?

A Well first, Mr. Blanchard, you must differentiate between the two, the leaded and so-called "Q" gasoline.

Q Yes?

A In the case of Ethyl, the refiner sends us a sample of his base gasoline; we first test it for what we might call the non-anti-knock properties such as distillation, gum content, sulphur content, vapor pressure and so on; then we test the gasoline for anti-knock and determine the amount of tetraethyl lead necessary to bring it up to our minimum specifications and we advise the refiner of the amount necessary and he adds it; then he makes the gasoline, or adds the fluid to the gasoline and sends us a sample and which we rate again and determine that he is putting in at least the amount of lead that we told him

to, because he might go over or above our minimum specifications.

Now as to the "Q" we, I must say, are not that particular. Our ~~trademark is not associated with the so-called~~ "Q" brand gasoline and we do not ask the refiners to send samples for our check. We have specified that right in our contract, however, that if we find such gasolines to be high in sulphur or gum and we receive complaints we can ask the refiner to send in his samples for our approval but in practice we do not do it.

Q So that in the case of "Q" you do not exercise that provision of your contract whereby you are entitled to samples, unless you have some reason for it or some complaint?

A The only check we make on "Q" is what we call "field samples", that is those picked up by our representatives.

Q At service stations?

A At service stations or bulk plants or places of that sort and if we find that a refiner's samples run consistently we will say high in sulphur, let us say, then we would proceed with our other method, you see.

Q You would go back to your contract?

A We would go back to our contract and ask him to cut down on his sulphur.

Q Now why do you license, why do you sell only to licensed refiners, why do you require a license?

A We license refiners because ours is not only a sales contract but we ask the refiner to join with us in carrying out rules and regulations which must be adhered to

for safety, we ask him to join with us in manufacturing and marketing quality products and to see that his agents down the line, whether they be jobbers or dealers, use their best efforts to uphold quality.

Q It is the duty of the refiner then under his license, in order to retain his license, to follow the product?

A Yes.

Q When it goes into the hands of the licensed jobber?

A He should follow it to the ultimate consumor.

Q And he is bound to see that these rules and regulations as to handling by the jobber and the service stations are rigidly adhered to?

A Well he agrees to do it. I cannot say that all of them fulfill that obligation any too well.

Q That is a protection not only to the good will of your company but also to the purchaser of the gasoline?

A That is correct.

Q It has a twofold boaring?

A Yes.

Q Now you license, a refiner can only sell to licensed jobbers as I understand it?

A Yes.

Q Or licensed retailers?

A Licensed jobbers.

Q Licensed jobber retailers?

A Or jobber retailers who purchase in large quantities such as tank cars.

Q You are speaking now of jobber retailers?

A Yes.

Q Perhaps we had better speak of the wholesaler as a jobber or a wholesaler?

A Jobber or wholesaler. Your wholesaler is a man who buys in bulk quantities such as tank cars or in some cases maybe barges. Of course, you have no barges up here, but tank cars, large quantities, and resells the gasolines either through his own stations or dealers or both.

Q Yes, a jobber, you do not sell to the jobber at all?

A No, sir.

Q But the jobber must purchase from a refiner who is licensed?

A Yes.

Q And over whom you have some control as to the way the product is mixed and its treatment?

A Yes.

Q Its quality?

A Yes.

Q And so forth?

A Yes.

Q And then the jobber or wholesaler on his part undertakes under his license to see that your patented article is distributed by the service station distributor?

A Yes.

Q Under the conditions that you impose?

A Yes. You will note from the copies of the jobbers' licenses which have been submitted that the jobber agrees really to just do two things, he agrees to, at his own station, to see that these warning signs are properly

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placed on pumps; in the case of Ethyl that the trade-mark is properly placed and the only other thing that he will not dilute or allow it to be diluted by any of his resellers.

Q That he will not sell straight run gasoline as a leaded gasoline?

A That he will neither dilute nor substitute.

(Go to page 11,709)

MR. COMMISSIONER LIPSETT: I was going to ask before you finish that you take us through a specimen of the different contracts that have been put in.

MR. FRAWLEY: Yes, I was going to ask that.

MR. BLANCHARD: Mr. Frawley will deal with that, I was just trying to make a general presentation.

Q You have already stated in your statement the considerations that are taken into account in granting licences?

A Yes.

Q Has any refiner or jobber any exclusive licence in any territory?

A There are no exclusive licences in existence to-day; we had a few in the States and I think in Canada. Our original licence with the Imperial Oil Company was exclusive for a very short time. But there have been no exclusive licences since - I am almost positive of this date - since March, 1929.

Q Now, have any applications for refiners' or jobbers' licences in Alberta been refused?

A No, Sir. We have issued a licence to every applicant for licence, both refiner and jobber.

Q And that is for the territory in Alberta?

A Yes, Sir.

Q And in some cases for part of Saskatchewan?

A Yes, Sir. Where there might be an overlap and somebody marketing in Saskatchewan.

Q Western Saskatchewan?

A Yes, and I would not be surprised but what the same thing might hold true of British Columbia. There might be a little overlapping.

Q Have you ever cancelled any refiners' or jobbers' licences in this Province?

A No, Sir. I might amend that. The answer is we have never cancelled. There have been some people who held licences, like the Regal Oil & Refining Company, for instance.

Q They more or less lapsed?

A No, they were taken over by one of the other refiners, I do not know which.

Q That is not what I meant. But whether you cancelled for cause or otherwise?

A No, we have never cancelled, either for cause or without cause.

Q Do you charge any royalty in connection with the licences granted?

A None whatsoever. We sell the lead for both Ethyl and leaded regular gasoline at the same price, which is .26 per cubic centimeter of lead.

Q That is 26/100 of a cent per cubic centimeter?

A Yes, Sir.

Q MR. FRAWLEY: Mr. Nolan says how much is that in money?

A Well, a quarter of a cent.

Q MR. BLANCHARD: Assuming you were using 3 C. C.'s of mixture - you have told us that the average, I think, in making Ethyl was 2.?

A 2.5 is the average for Ethyl.

Q That is cubic centimeters?

A Yes.

Q Assuming 3 cubic centimeters was being used in a gallon of gasoline?

A Yes, Sir.

Q Of treatment, that then would be .78 cents?

A Yes, Sir.

Q For gasoline treated with 3 cubic centimeters?

A Yes.

Q 78/100 of a cent is the cost of the lead?

A Yes, Sir.

Q F. o. b. where?

A The case of tank car shipments, that would be the laid down price, or rather here it would he the freight prepaid price to destination.

Q In other words, there is no freight charge on-----

A Tank cars.

Q Tank cars?

A Yes.

Q In tank car quantities. But in barrels or drum quantities?

A Drum quantities, the licencee pays his own freight from our point.

Q Can you tell the Commission what the freight amounts to per cubic centimeter, so that we can keep it on the cubic centimeter basis?

A I think on the way we figure that----

THE CHAIRMAN: You will eventually come to Imperial gallons and it will be simpler?

A I can change all those. I am just used to talking in U. S. gallons.

Q What I would like to see is that you take some given gasoline of a certain octane number, Premium gasoline, and ascertain what it costs with the lead added per gallon?

MR. FRAWLEY: Yes.

THE CHAIRMAN: That is simple.

MR. BLANCHARD: I think we will have to take two cases, perhaps, of what it would cost for a big refinery that takes tank car lots, and what it would cost the smaller one that has to pay the freight in drums.

THE CHAIRMAN: Yes, I think we should have a general idea of what is increasing the cost per gallon.

Q MR. FRAWLEY: Would you not have to know the Imperial operation and the British American operation and the other two small refineries' operation. Wouldn't you have to know what the base start of Imperial is for making their 3 Star and their Esso?

A I have to know the lead content that they use.

Q That they are putting into the market?

A Yes.

Q If you knew that you would work back and wouldn't you also have to know the octane number of the base stock?

A No, I do not care about that. All I want to know is the amount of lead that they put in the gasoline.

Q Into the two gasolines?

Q THE CHAIRMAN: To give a given octane number?

A Yes.

Q When you know that you know how much that company's product has increased by the use of lead?

MR. FRAWLEY: Yes, they would know how much precisely the lead in it cost?

A Yes.

Q THE CHAIRMAN: You do not care about the base. If it is a poor base it will take more lead to bring it up to the right octane number?

A Yes.

Q But given any octane number then of any given gasoline the

amount of lead will vary?

MR. FRAWLEY: The Imperial Oil Company in order to put Ethyl gasoline on the market has to bring California straight run from Vancouver to get the base stock up to about 65 and then they add lead to make their 78 about Esso?

A I see.

Q They have not got to do that for 3 Star, but as I see now, that is of no consequence to you?

A No, all I know is the lead content and I can tell you how much----

MR. BLANCHARD: We will know then how much your corporation receives for the lead that is used?

A We can figure it almost exactly, as far as the lead is concerned, because we can tell you what we get. And then there is 5% duty and depending on how they receive it, we can tell you the freight.

Q I suppose that if we took one case such as the Imperial, it may be very different, there may be a very different lead content for the same quality Premium gasoline in the case of the B. A. or some other refiner?

A Not only would there likely be a difference between the two but there probably would be a difference in the Imperial from week to week or month to month.

MR. BLANCHARD: So would it not be, Mr. Chairman, just as useful to the Commission to take the average lead that is used in Premium gasoline in Canada and the United States. I mean taking just the Imperial alone as to lead content they are using to-day in their Premium

gasoline it may be changed to-morrow or next week, even with their gasoline, and would not reflect what some other refiner was doing?

MR. FRAWLEY: I did not think Mr. Kaley would be asked about these things at all. Mr. Moore, the refiner at Calgary for the Imperial, knows precisely what lead he has to put in and he can tell you what he put in in the last 30 days and how much he had to change each batch and so on?

A That is right.

Q He knows what the laid down cost is. We have that from Mr. McGrath. It is .386, I think he said, per C. C., and while it would be very fine to have Mr. Kaley do what he can I thought, perhaps, you were putting something to him that he would not be able to do.

THE CHAIRMAN: Well, we will take a recess anyway and you can think about it.

(At this stage there was a short recess.)

Q MR. BLANCHARD: You gave the average lead content in "Q" and in Ethyl gasoline for the United States and how much there was in an American gallon?

A Yes.

Q Have you converted that to the quantity in the Imperial gallon?

A I just this moment converted it. For Ethyl it would be .78 cents per gallon.

THE CHAIRMAN: Just wait a minute. Yes?

A For Ethyl gascline, and this is based on the average of 3 cubic centimenters per Imperial gallon, the cost would be .78 cents per gallon.

Q MR. BLANCHARD: That is what your corporation receives?

A That is right.

Q THE CHAIRMAN: 3 cubic centimeters to the Imperial gallon?

A Yes, sir, for Ethyl.

Q And the cost is?

A .78 cents per gallon.

Q MR. COMMISSIONER LIPSETT: That is equivalent to 2.55 for the U. S. gallon?

A 2.50 for the U. S. gallon.

Q MR. BLANCHARD: And "Q"?

A I am just figuring that. On the basis of 1.08 per Imperial gallon.

THE CHAIRMAN: 1.08?

A Yes, Sir, it would be .3808 cents per Imperial gallon.

MR. BLANCHARD: For "Q"?

A For "Q".

THE CHAIRMAN: Give me those figures again?

A On the basis of 1.08 cubic centimeters per Imperial gallon it would cost .3808 cents per gallon.

Q MR. BLANCHARD: Now, in tank car lots no freight is paid by the refiner?

A That is correct.

Q But when you sell in drums, the purchaser pays the freight?

A That is correct.

Q And can you tell the Commission what the freight amounts to per cubic centimeter, on drums?

A The freight per cubic centimeter from Deepwater, New Jersey, which is the only point from which we ship drums,

is .026.

Q THE CHAIRMAN: .026?

A Yes, per cubic centimeter of lead.

Q MR. BLANCHARD: So that for Ethyl, which is being treated from shipments in drums, it would be three times .026 for the freight?

A Yes, that is correct.

Q That would be .078?

A Yes, Sir.

Q Or 78/1000 of a cent?

A That is correct.

Q And the only difference in the cost to the refiner who takes his product in drums is that item of freight 78/1000 of a cent per gallon?

A Based on 3 cubic centimeters of lead per Imperial gallon, yes, Sir.

Q Then there is duty?

A There is 5% duty on all fluid entering Canada.

Q And that applies to both the purchaser of tank car lots and drums?

A Yes, Sir.

Q The only differential then between the man who purchases in drums and the man who purchases in tank cars is the freight?

A Yes, Sir.

Q So what is the duty on the 3 cubic centimeters, that is Ethyl gasoline?

A Per cubic centimeter of lead it would amount to .013. So for 3 cubic centimeters of lead per Imperial gallon it would cost .039.

Q That covers the cost, freight and duty?

A Yes.

Q In the one case, and duty and cost in the other?

A Yes.

THE CHAIRMAN: You say cost, freight and duty. That figure was what?

A .039 for 3 cubic centimeters of lead per Imperial gallon.

Q MR. BLANCHARD: That is duty?

A That is duty. I might clarify that, if we just added up on the gallon containing 3 cubic centimeters per Imperial gallon we would get .78 cents. The freight would be .078 and the duty would be .039 cents. The total cost for making a gallon of Ethyl gasoline containing 3 cubic centimeters of lead per Imperial gallon.

Q MR. BLANCHARD: And from drums?

A From drums it would be .897.

Q And from tank cars it would be that amount less freight?

A .819.

Q Now, that is exclusive of such small items as handling and exchange, I suppose?

A Those are the only figures that I would be competent to give, the ones that I have given you, because there are such things as exchange and brokerage and other items which I do not know anything about.

Q I suppose they are variable?

A I would imagine so.

Q That is something outside your knowledge?

A That is right. These figures cannot be taken as the cost to the refiner because he has his cost of blending and labour and so on in the actual manufacturing of these products. But these are the only ones that we can put our finger on.

Q MR. COMMISSIONER LIPSETT: That is the tank car lot, just to finish, what is the minimum quantity to get the tank car rate?

A 3,000 gallons. It costs roughly $18,000.00. We have two types of tank cars. One is 3,000 and the other is 6,000 gallons.

Q Can you translate that into cubic centimeters by any chance?

A 3,000 gallons. The factor there is 3,685. There are 3,685 cubic centimeters per gallon. There would be in the small tank car of 3,000 gallons, there would be 11,055,000 cubic centimeters.

Q On that minimum you pay the freight?

A Yes, Sir. There is one correction that I must make here in my figures. On "Q" I gave you a figure of .3808 per gallon for 3 cubic centimeters. That is .2808, I am sorry.

Q THE CHAIRMAN: On "Q"?

A Yes.

Q That is 1.08 cubic centimeters per Imperial gallon?

A That is correct. But the cost I gave you was .3808 and it should be .2808.

Q Yes?

Q MR. COMMISSIONER LIPSETT: Does that alter your-----

A That was on the cost of a gallon of "Q" gasoline containing 1.08 per Imperial gallon. 1.08 cubic centimeters of lead per Imperial gallon. I gave you a cost of .3808 and it should have been .2808.

Q Then that alters the other figure, does it not?

A It does not alter the other because we were talking about Ethyl gasoline in the figures which followed that.

Q MR. BLANCHARD: We have not given the total

cost of "Q" yet.

A No, would you like me to do that? The cost of lead for gasoline containing 1.08 cubic centimeters per Imperial gallon will be .3708.

THE CHAIRMAN: The cost is what again please?

A For gasoline containing 1.08 cubic centimeters of lead per Imperial gallon will be .3708 cents per gallon. The freight on that in drums will be .03708 cents per gallon.

Q MR. BLANCHARD: The duty will be half that figure, that last figure?

A Yes, duty will be half that figure. Duty on that gasoline containing 1.08 cubic centimeters per Imperial gallon would be. .01854.

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Q Then the total cost of "Q" in drums on a basis of 1.08 centimeters is what?

A According to my figures, which have been pretty hasty, .42642.

Q Carrying it out----

THE CHAIRMAN: Repeat those figures, please, the total cost.

Q MR. BLANCHARD: The total cost in drums?

A .42642. Now I would like to, if I may, I would like to check those figures because I am subject to my mathematics here.

Q MR. BLANCHARD: Give me the cost in tank cars?

THE CHAIRMAN: You just deduct freight.

Q MR. BLANCHARD: Yes, you just deduct freight, that is all?

A That would be .3893 .

Q Cents?

A Cents.

Q Now what is the minimum quantity of lead that you carry in the drums?

A 55 gallons, 55 gallon drums, and the lead contents in there is 130,000 cubic centimeters.

Q In what you call a 55 gallon drum?

A That is right.

Q That is the Imperial gallon?

A The United States Gallon.

Q So that would be a 44 gallon drum, would it, Imperial?

A Yes.

Q 130,000 cubic centimeters?

A Yes.

Q Now in shipping the drums, is there a minimum number of drums shipped, to get the best freight rate?

A The railways have made or established a rate on fluid whereby they will seal cars for us and deliver them to destination and the minimum that they have established is 16 drums for a sealed car and of course as I pointed out in our statement we will not permit shipment of fluid with any other commodity. It must be shipped in sealed cars.

Q And why is that?

A Because in case of an accident or a spill of the fluid we would not want to contaminate probably food stocks or any other commodity.

Q And I suppose if the purchaser wanted to stand the extra freight he could take 8 drums or 4 drums in a sealed car?

A One drum, if he wanted to pay the freight on a sealed car.

Q But that would make the freight-----

A It would be a pretty exorbitant freight rate.

Q Rather high?

A Yes.

Q MAJOR LIPSETT: Does that mean to say, your minimum shipment must be 16 drums?

A Yes, and that is a factor that, as I said, because of the railways will take as little as 16 drums in a sealed car at the given freight rate. Most of our carloadsof drums go out with, well 44 is the maximum, 44 drums per car and our cars vary from 44 down to 16 but the railways have established that figure, that they will take as little as 16 drums and still give the purchaser the benefit of the standard rate.

Q Now you do not have any practice then of storing say 16 drums at Calgary, taking 16 drums to Calgary and storing part of it?

A No sir, we have no warehousing facilities anywhere.

Q And the purchaser, he must handle 16 drums or join with some other purchaser and make his own arrangements?

A Well the joining with another purchaser has not been done very much but it could be done.

MAJOR LIPSETT: Yes.

Q MR. BLANCHARD: I suppose 4 or 5 or 6 or any number of small refineries who did not take in tank car lots could pool their purchases, if it were done under proper supervision?

A As I say it never has been done but I see no reason why those three or four refineries, if they were to make proper provision for safe handling say by truck from one given point, it could be done and there is no reason why it should not be done.

Q You do not have any objection to it?

A We would have no objection to it but we would be very careful and we would be insistent that proper methods of transportation from that given point be made and that handling be done in a proper manner.

Q That is by reason of the hazard in the product itself?

A Exactly so.

Q MAJOR LIPSETT: Well if one bought the 16 drums say here in Calgary, would he have any right under his license to re-sell a part of that to another refinery?

A No sir, when that fluid is sold to him he must retain it and use it, I mean when that fluid goes to a given point it

should be retained there and used at that point, the reason for that being that if we allowed transportation without our knowledge, any independent truck man or any other means might be used of conveying it to another point and possibly to a point where proper safety precautions may not be taken but if previously arranged among, let us say, two refineries, so that the one refinery took the 16 drums, if as I say, previously arranged, we would permit him to instruct a truck man how to handle it and the people at the other end how to receive the fluid at an approved mixing installation, we would have no objection to that.

Q If two or your licensees here in Calgary wished to unite in buying the minimum 16 drums there would be no difficulty made by your people so long as you are informed?

A That is correct, so long as we are able to properly instruct the people who are going to handle the fluid and when I say "handle it", I do not only mean the mixing of it but the transportation.

Q Quite so?

A And so on.

Q MR. BLANCHARD: Will you tell the Board why you absorb the freight on tank cars and do not absorb it on drums?

A There are two reason for that; first of all it is very much cheaper for us to ship fluid by tank car, for instance at our Baton Rouge plant we have no provision for drum filling whatever. All fluid that moves from Baton Rouge is by tank car and therefore we have a decreased expense of, for instance, washing and steaming when the empty cars come back;

we have one package to clean as against a great number of drums and I might say that approximately 85 to,-well I think 85% is about the correct figure,-of the fluid we ship goes out by tank car and it is cheaper for us to handle than by drums and secondly there is the safety factor. Our medical department consider it much safer to ship one package of a large amount of fluid than to ship many packages of a small amount; in other words they consider I believe that there is just as much hazard if you were to crush one drum as you would have if you crushed a tank car; there is the greater quantity there but the drum would be plenty to cause trouble.

Q Yes?

A So we, for that reason, wish to hold the number of packages, just the same as the number of mixing points, to a minimum.

Q I suppose it would take very few cases of injuries to the health of handlers, or other persons, of this product, of lead poisoning, to very seriously injure the good-will of your corporation?

A I think the best answer to that is that we had to withdraw our product, or we didn't have to, we voluntarily did it, we withdrew our product from the market for a year owing to publicity which we received due to the accidents which were entirely in manufacturing this publicity made no difference between the concentrated fluid and the gasoline and the publicity was not very good for us, and now with our product as well accepted as it is, if we were to have some other accidents, even in the handling of the concentrated fluid itself, I have no doubt that the papers, many of them, would say "Ethyl Gasoline" rather than "Ethyl Fluid"

and it no doubt would have a tremendous effect on the sale of our product.

Q Yes. Now when drums are being utilized or used for mixing, must the whole contents of the drum be used at one time or could you use a portion of it?

A You must use the entire drum. In drum mixing you mix by volume; in other words you must have enough base stock prepared, we might say, to use the entire drum. In bulk mixing you can mix any amount you want because in that case you mix by weight; in bulk mixing you can withdraw any portion you want from the way-tank,add it to the gasoline, but in drum mixing you have opened the container and you must use it all, wash the container and retain it. You see the bulk tank has no opening whatsoever, that is there is no chance for the operator to come in contact with the fluid but in the drum he actually opens a bung, inserts the stand-pipe, and the fluid is sucked out by vacuum, so we do not permit, if I may use that word, any part drum mixing.

Q And that is purely from the basis of the hazard?

A That is correct.

Q THE CHAIRMAN: Is a drum of tetraethyl fluid much more dangerous than say a drum of gasoline when it is finished?

A Not from the viewpoint of explosive mixture or anything like that. The fluid itself is about of the same fire point as kerosene and it is not apt to burn or explode at all but it is a matter of withdrawing the stand-pipe which has fluid running out of it. You see the hazard of handling the fluid is three-fold, if you were to get it internally or absorb it through the skin or breath the fumes,it is a toxic in any one of those three ways and of course a man working over a drum

which is open must wear a gas mask, he must wear special clothing, he must wear rubber boots, rubber gloves, he must take a bath immediately after the mixing operation. If he has a spill he must wipe down the platform first with kerosene and then with hot water. Those are all specifications which are mentioned in the Exhibit which we have produced but the hazard is not from explosion. It is from getting in contact either with the fluid or with the fumes. Does that answer your question.

Q THE CHAIRMAN: Yes.

Q MAJOR LIPSETT: It is lead poisoning in some form?

A Yes, it is lead poisoning.

Q MR. BLANCHARD: I suppose the hazard becomes negligible when it reaches the service station, I mean having been mixed?

A When mixed with gasoline in the proportions that are used there is no hazard. You can figure that out. Now of course I have been told that the surgeon general, the United States Public Health Service, still feels that he has not had sufficient experience with the product to say you do not need the lead signs on the pumps any more.

Q I suppose that is, it might be injurious, the lead in it might be injurious in cleaning clothes and washing the hands and so forth but you say you have not proceeded with it that far?

A We find no particular, or no hazard, in handling the gasoline and I am speaking of our medical laboratory now, our medical department, we find, so far as we can determine, no hazard in handling the leaded gasoline. Now if you were

going to wash clothes or use it in a lamp, it would not be a good product for that because it all contains a staining dye and probably you would dye your clothes a little bit and secondly the dye and the fluid itself, if you were to use it in any burning equipment, a stove, a lamp, you would probably plug it up, so that it is a motor fuel, designed for that purpose. It is not designed for cleaning or washing or burning in a lamp and it is no better for that than any other gasoline, the lowest grade you can get and it should be used for just what it is intended and that is a motor fuel.

Q THE CHAIRMAN: Why the dye?

A So far as the fluid is concerned and the gasoline it has been specified we must dye the gasoline and the fluid a staining colour; now so far as the different colours that are used by various oil companies, that is a matter of merely their own choice as to what colour they use. It is an identification, that is all.

Q It is not for the purpose of restricting its use but it must be dyed?

A I think that the fact that the gasoline itself must be dyed is a requirement that has hung over to some extent from the days when we sold only Ethyl; at that time the Surgeon General specified a red colour in the gasoline and what he had in mind I am sure was getting to the minds of mechanics, service station operators and so on, associating in their minds the red colour with the lead sign and indicating to them that they must not wash tools or automobile parts or anything like that in the red gasoline; now of course we sold the Ethyl fluid and it was used only in cleaning

gasoline for quite a few years before we made it available for non-cleaning gasoline, and at that time we did not wish to use the same colour, because we had certain objections to the red coloured gasoline, and we approached him with regard to colour and he said "Yes, you can colour or you can license your refineries to colour in any colour that they want to, any colour so long as it is coloured"; his feeling no doubt being that the mechanics and attendants and so on had by that time associated in their minds that a coloured gasoline should not be used other than as motor fuel and the selection of any particular colour is up to the refinery.

Q MR. BLANCHARD: Now Mr. Kaley, is the price of your product the same to all refineries in the United States and Canada or is there any variation in that price?

A The price of our products which is usually referred to in terms of cubic centemeters is the same to every refinery from the largest to the smallest; we have no quantity discounts or anything of that sort.

Q And from the inception of your company, that is when you started to manufacture and sell this product, has the price of it increased or decreased as the quality changed and so on?

A We started out originally with a price of 1 cent per cubic centimeter; we have had 11 successive reductions in the price of fluid and we have never had an increase; that is over a period of 15 years we have reduced the price of the fluid 11 times.

Q And what is the aggragate reduction, how does it compare now with the price originally?

A It was originally 1 cent per cubic centemeter and it is now .26 cents per cubic centemeter.

Q Comparing the quality now to what it was?

A Yes, to what it was originally.

MR. BLANCHARD: I think that is all.

TO MR. FRAWLEY:

Q Mr. Kaley, can you give me some idea of the stock ownership of your company?

A Our company is owned 50% by Standard Oil Company of New Jersey and 50% by General Motors Corporation.

Q Would you just briefly and concisely give the Commission the high-lights of the refinery contract, just what are the covenants on his part and what he must comply with?

A I will be very glad to. Have you a copy there that I can refer to it.

Q MR. BLANCHARD: Yes.

A Thank you. Would you like me to differentiate, Mr. Frawley, between the Ethyl and the "Q".

Q MR. FRAWLEY: Between Ethyl and the "Q", please, just in simple language, the substance, the meat of what the contract is.

MAJOR LIPSETT: This is Exhibit "500" or "501"?

WITNESS: "500" is the one I have now sir. There are three clauses, in the beginning whereby the seller and the buyer recognize the business of each other relative to patents, the ownership of patents on our part and the business of the refinery; the refinery recognizes thatcertain rules and regulations relative to the use, transportation and sale of the products should be carried out and then we come to a clause entitled "License" where-

by we license the refinery to manufacture, sell and deliver Ethyl Gasoline in accordance with certain provisions; the first of these (a) License the refinery to sell the other refineries, that is other people holding the same type of license as he has; the second provision entitles the refiner to sell to other refining companies who hold a license to sell but not manufacture Ethyl Gasoline. Mr. Frawley, if there are any points as I go along that you wish further information on you might ask me.

Q No, I would like you to do as you are doing, run over the important things in the contract?

A All right, the third point is that the refinery is licensed to sell to users and consumers or to retail dealers for delivery to consumer; the fourth provision is that the refinery agrees upon written request to furnish us with a list of any point or points where the treated gasoline is sold.

The second clause is entitled "Purchase and Sale of Anti-Knock Compound".

Q MAJOR LIPSETT: Just before you pass from that, does that give the licensee, the manufacturing licensee, a limited territory in which he can supply the products?

A In the first we say that he is licensed to market and sell or sell and deliver in the territory mentioned in the addenda; in other words we do put a territory in there wherein he is licensed to sell.

Q Does that mean that if you gave a license here for Calgary for instance, that that might not enable him to put the product into Saskatchewan?

A I might answer that in this way, sir, that our usual method when we execute a license to a new licensee is to ask him where he normally markets; in other words what territory does he want and then we put that in the addenda; now at such time as he may wish to expand his market to another Province or something like that, he can just write in to us and we will increase that; I mean it is merely to know where they are licensed to market and that marketing is being done at that point, you see; it is not a hard and fast rule so far as the territory is concerned.

Q It is not a method, in other words, of giving any preference to any one of two refineries say in this City?

A None whatever; any territory is given to the refiner at the time we sign the contract with him really that he wants, now if a refiner, and this is just a supposition, in Turner Valley, who had a normal market in Alberta were to say "Well we would like to be licensed for all of Canada" we would probably say "No" but we will license you in your normal marketing territory", which might be Alberta and Saskatchewan and then at such time as he expanded his market perhaps to some other part of the Dominion we would be very glad to extend it.

Q But you would not give a more limited market to one of the refineries in this City than you would to another?

A No sir.

Q Even if one were larger than the other?

A No sir, we would not differentiate between them.

Q I just wanted to make it clear, Mr. Kaley?

A Yes.

Q MR. BLANCHARD: I do not think you have any contracts which are confined territorially to a city?

A No.

Q They are all for the Province?

A It would be the Province, that is about as small a territory as we would take in.

Q MAJOR LIPSETT: But I was just wanting to make it clear, if you gave four or five licenses in Calgary or the Calgary district?

A Yes.

Q That some of them would not be limited to Alberta whilst others would include Alberta and Saskatchewan?

A No sir, we would not do that.

The next clause has to do with the purchase and sale of anti-knock compound and refers chiefly to the price at which it is sold and the method of taking the fluid, such as drums or tank cars. I think that is really about all there is to that.

Q MR. FRAWLEY: Are you leaving that now and going to the "Q"?

A No, I am leaving that clause having to do with price.

The third clause has to do with health requirements relative to the handling and mixing of Ethyl fluid and distribution of gasoline containing it. I have said quite a little about that this morning. It refers to the mixing installation and the refiner agrees that we should have the right to suggest and that he will comply with any suggested repairs or anything of that sort, of the mixing installation; he agrees to permit our men, both medical and mechanical, to inspect the installation at any time and that is about all of that.

H. W. Kaley.

Q MR. COMMISSIONER LIPSETT: I think I must have taken the note down wrong before. It is 50 gallons in the drum, is it. 50 United States gallons?

A I think it is 55, Sir.

Q I had 55 down and that represented 130,000 cubic centimeters?

A Here we say, if you are referring to that contract, containing not less than 50 U. S. gallons of said anti-knock compound. Is that what you were referring to?

Q Yes?

A It is not less than 50 but the drums are actually 55 gallon drums. That is the way we refer to them.

Q MR. BLANCHARD: Or 44 Imperial?

A 44 Imperial. The next clause entitled "Delays in Shipments" is merely a statement that we are not responsible for delays except in cases of shortage of the product, in which case we agree to ship every licencee in accordance with past orders. In other words, we would not leave anybody without fluid and ship it all to anybody else. But we would allocate it as best we could in case of shortage for one reason or another. Clause 5 has to do with standardization of the product and sets forth the specifications which the gasoline must meet, and in this case as we are talking about the Ethyl contract, these specifications apply to Ethyl. They have to do with various specifications which I have mentioned earlier. They are distillation, sulphur, corrosion, gum and, of course, anti-knock. Then there is an agreement that we may have the right to change these specifications from time to time in order to keep abreast with advances

in the art of refining or in the automotive business. The next refers to the statement or agreement on the part of the refiner that he will send to us samples of his base stocks before any fluid is added and will not add fluid without first securing our approval and then that he will submit samples of the treated gasoline for our approval before shipment is made. There is a statement with regard to the minimum lead content in the gasoline, which in this case is 1.81 cubic centimeters and a maximum, which in this case is 3.6 cubic centimeters per Imperial gallon. There is an agreement on the part of the refiner that he will not sell gasoline for aviation purposes, the reason for that being that aviation gasoline requires an entirely different brand of fluid or an entirely different composition of fluid. And he agrees not to sell this gasoline or permit it to be used for aviation purposes except in cases of necessity. The next clause, No. 6, has to do with the name of the product, and this is an agreement on the part of the refiner that he will adopt and use in the marketing of Ethyl gasoline a brand, and that he will affix to whatever apparatus he uses to vend the gasoline, our trade-mark in a size satisfactory to us. He also agrees that he will enforce these same obligations upon those to whom he sells. Clause 7, the buyer's obligation to develop business. He merely says that he will press the use and sale of Ethyl gasoline. Clause No. 8, defences of claims of infringement of trade-marks and patents. We hold our purchasers harmless from any suits having to do with patent infringements or trade-mark infringements, provided

we are given proper notice to defend it. Term and termination of the contract gives the date which is, being our current contract which is being offered, the term of the licence, should it be executed right now would extend to December 31, 1939, and indefinitely thereafter, subject to rights of cancellation, one of which is that either party may cancel a licence at any time for failure of the other party to comply with its terms and provisions. The next clause says that we shall have the right in December of any year to substitute a new form of licence or to make changes in the existing licence, this new licence or the changes to become effective at the end of the following March, providing we make the same changes applicable to all refiners holding the same form of licence in the territory called for. The refiner has the right with or without cause to terminate a licence on giving us 120 days' notice. We have the right to cancel with or without cause on giving the refiner 12 months' notice in writing. And, of course, the usual clause that notice shall be deemed good and sufficient if sent by registered mail. And the closing clause, that the contract is a personal contract and constitutes the entire agreement between the parties.

Q MR. FRAWLEY: In dealing with the other contract I think you need only point out those places wherein it differs from the Ethyl contract?

A All right, Sir, I will be glad to do that. The clause having to do with the licence is the same. Purchase and sale of fluid is the same. We have a requirement, which

merely refers to the other contract. The same applies to delays in shipments. As to standardization, we have no minimum requirements for anti-knock value in the "Q" contract. The maximum requirements is 70 octane number by the C. F. R. method of test or 72 by the L3 method. All other specifications are the same as in the other contract. After the name of the product we ask the purchaser to adopt a name, but at variance with the other contract we do not ask him to attach a trade-mark to a pump. As a matter of fact, we prohibit him, by agreement, from using the name "Ethyl" or "Q" in selling or offering for sale this product, and the reason for that is fairly obvious in that we do not want any refiner or any marketer of gasoline to represent the "Q" or non-premium grade as Ethyl. The refiner agrees to adopt a color and to market his gasoline using that color unless it should be treated gasoline sold by another refiner. Defences of claims and so forth are the same as any other agreement. This one clause having to do with transformation of "Q" to Ethyl merely means that you can buy one carload of fuel and use it for both products.

Q Yes?

A And your transformation is merely the adding of a different color.

Q Yes?

A Term and termination of the contract are the same as the others, except that the "Q" contract is made contingent upon the existence of the Ethyl contract. And that, I think, covers everything.

H. V. Kaley.

Q MR. FRAWLEY: There are some things about this contract I went to ask you about. Why do you limit the content of lead in the gasoline and prescribe the maximum rather as being 3.6 cubic centimeter per Imperial gallon of gasoline to make, well, that is to make Ethyl gasoline, and that is the only limit. That is the only maximum, is it not?

A Yes.

Q He can use 3.6 to make his "Q" if he had to?

A Yes.

Q There is a limit of 3.6?

A Yes.

Q Why?

A Because we are limited to 3.6 by----let me put it this way, we are limited in the States to 3 cubic centimeters of lead per gallon, per U. S. gallon, which would correspond to 3.6 per Imperial gallon in Canada.

Q Yes?

A Because we have set that limit or have had that limit set for us in the States. We have chosen to hold to that limit which we believe is necessary for safety purposes throughout the world, not only Canada, but it is true in the U. K. and on the continent and everywhere else we market, except for aviation, in which case we have approved the use of 4 cubic centimeters of lead in the usual aviation gasoline for commerdial air-lines on contract, and up to 6 cubic centimeters of lead for Governmental air forces, which applies to Canada as well as the States.

Q You see, you are not limited - the Surgeon General, and

I do not speak facetiously at all - the Surgeon General's writ does not extand in this jurisdiction at all, does it?

A That is correct. However, our Medical Department have taken it up with your people in Ottawa and there has been an agreement with our - I won't say a written agreement, I do not know about that, but as I understand it there are no regulations in effect in Canada, although your medical people know and subscribe to these regulations. In other words, as long as we hold the maximum to that figure there was never any need to establish any regulations in Canada.

Q Mr. Kaley, this is what concerns me. We heard yesterday from the North Star Oil Company that they had about reached their limit. They make about 80 octane gasoline, using a Texas crude, and using your maximum of 3.6. He said 3 but I suppose he meant 3.6 of lead, and he is finished. He cannot do any better than that?

A Yes, Sir.

Q Now, the Texas Corporation is operating in this territory with 82 octane gasoline?

A Yes, Sir.

Q And I suggest to you that by virtue of the restriction which you have placed upon the use of lead there is not any hope of competing with the Texas Corporation Ethyl gasoline in this jurisdiction, or in this territory except, of course, by the installation of expensive new machinery. What do you think about that. Is that all nonsense?

A No, but the Texas Company, of course, is under the same maximum restriction as any other refiner. We would not permit the Texas Company to add above 3 C. C.'s of lead

or 3.6 in Imperial gallons. It just so happens they have a better gasoline to start with, I presume.

Q Yes, they do more cracking and add more cracked gasoline. But suppose I am just a small refiner with only a straight run operation. I want to manufacture Ethyl gasoline and you are content to give me a licence. But the limitation of 3.6 C. C.'s keeps me out. I cannot win in this so-called "octane race" at all. It keeps me out of competition and prevents me from competing with the Ethyl gasoline which the large refiners are making. That is so, is it not?

A My best answer to that would be that we hold to that maximum of 3.6 C. C.' s per gallon because we believe that is the safe maximum limit for handling by the public. If that were to place a hardship ion you it would just have to do it. We would prefer to retain for safety's sake a maximum of 3.6 C. C.'s per gallon than to aid you commercially in arriving at a high quality gasoline.

Q That, I take it, is your answer. That happens to be the answer you fall back upon or you rely completely upon the necessity for safety in handling?

A I do not know that we fall back upon is putting it the right way. We believe for the safe handling of the gasoline by the public we should not permit more than 3.6 C. C.'s of lead per gallon.

Q Yes, and I do not suggest it is not a good answer.

A Mind you, Mr. Frawley, it is possible that maybe 4 C. C.'s would be safe and maybe 4½. But we do not know. And we do know that 3.6 is safe. Now, our Medical Department are carrying on investigations all the time.

Q And that might go up?

A It might.

Q I understand that. There is another thing that bothers me a little bit. You prescribe the maximum of Ethyl, you see. You say in this volume of amending letters, which I find is here but I do not find it quite readily in the agreement. I am reading the letter of May 28th, 1937, in the Exhibit "498" in which you say:

> " In accordance with the principles outlined in "our accompanying letter of even date relating to "the development of laboratory knock testing Method "L-3, and referring to Clause V on Standardization "in the Ethyl agreement between us, we hereby give "notice that, effective as of October 1, 1937:
>
> "The amount of 'ETHYL' fluid to be added "to Buyer's gasoline shall be at least "sufficient - - as determined by Seller's "laboratory - - to make the resultant product "manufactured under this Agreement have "at the time of sale to the consumer an "anti-knock value of not less than seventy- "eight (78) octane number by Method L-3."

A That is correct.

Q You say you cannot sell Ethyl gasoline with less than an octane number of 78?

A That is correct.

Q But when you talk about "Q" it is just in the reverse order, is it not. What you say about "Q" is, and I won't read the whole letter, but on the 28th of May, 1937, you addressed a similar letter to your "Q" licencees

H. W. Kaley.

and said that they must, that the amount of compound to be added should be an amount to make the resultant product, which is "Q", manufactured under the agreement, have at the time of sale to the consumer an anti-knock value of not more than 70 by the A.S.T.M. method or 72 by the method L-R. Now, why try and hold that octane down and the other one you let go sky-high?

A Could we answer that in this manner. First, we will dispose of the Ethyl. Ethyl gasoline was our initial product. It is a product which we have advocated, advertised and to some extent guaranteed to the public through our advertising. We have said to them "Use Ethyl and we promise you a good all round gasoline." We have always had a minimum set of specifications for Ethyl. Now, in the particular case that you refer to we set that minimum of 78 octane number by the L-3 method of test. So much for Ethyl. Now, we come to "Q" and you question as to why the maximum. Now, I will say this to you, at the time in 1933 when we introduced the use of lead for non-Premium gasoline we were quite undecided for a long time as to whether we would be wise to do it. In the first place we had a nice profitable Ethyl business. It was a question in our minds whether we should even license refiners to use "Q". So we said this. If can set and if we do set a maximum octane number for "Q" so as to establish a spread between "Q" and Ethyl we won't bring down our Ethyl business. If we permitted a spread to become too narrow undoubtedly our Ethyl business would have been pulled down. It is a matter of record the Ethyl business went down anyway in 1932.

Q Yes?

A However, we established that maximum and it exists in the contract to-day. However, I must admit that the contract is being violated by most of our customers and we have not done very much about it. In other words, we have not pegged that quality limit. Now, practically all of our customers are exceeding it and we have not done a thing about it.

Q They are exceeding it and boasting about it. One man says "I am putting out a 73 octane standard gasoline;"

A Just as long as we recognize that they are - the answer to why we are permitting that to exist, that contract violation, is this; there is a great amount of discussion and disagreement, both in the oil industry and in the automotive industry as to the correlation between knock-testing methods in the laboratory and knock-testing methods on the road. In other words, the Co-Operative Fuel Research Committee, which is composed of members both of the automobile companies and the oil companies, have been for some years endeavouring to perfect a means or a method of knock testing in the laboratory which you could take out and prove in your car. Now, that has not been arrived at to date, and whereas two gasolines might have exactly the same octane number in the laboratory they might perform differently in the car. One chap says "My gasoline and my competitor's gasoline are exactly the same in the laboratory but yet when we take them out on the road he has a better gasoline than I have. Therefore, I am going to disregard your laboratory specification as set forth in your contract and I am going to push the quality up to meet my competitors' road ratings.

So if we knew, if we had a satisfactory test method that we could depend on and that we could refute an argument of any refiner who wants to go up too high in quality, we might be inclined, I do not know whether we would re-set that maximum specification or not. But certainly to-day neither we nor the people in the industry know how to do it and until you know how to do that you might better do nothing. And that is the attitude we have taken, even though we have recognized our contract is being violated in that respect.

Q You see it gets back to what I said a moment ago. You do not care, they compete intensively in the Ethyl product. As I say, we know that the Texas Company - and their specifications are not filed yet - but we know that their Ethyl gasoline is 82 octane.

A That is about what it is through the States.

Q Now, the other companies are much under that. But, you see, we heard something about an octane race from Dr. Brown, who came here from Michigan and who talked to us about refining methods, and Dr. Frey. I do not know whether Dr. Frey touched upon it in his evidence. Perhaps he did not but no doubt will. I wonder to what extent the Ethyl corporation permits that race to go on with the Ethyl contractee and endeavour to hold it down with the Standard contractee?

A As I say, we are not endeavouring to hold it down. We recognize the maximum quality which we established for "Q" and I have given you the reason why we established it for "Q" and that it is being violated, I must admit, with our knowledge. So that there is an improvement in gasoline in both Ethyl and "Q" grades. I do not know

whether you want to call it an octane race. I do not believe I would call it that. It is certainly a definite improvement and it is a continuing improvement.

Q Here is what has bothered me. Let us accept once and for all that they must not use more than 3.6 C. C.'s?

A Yes, Sir.

Q You do not care how high an octane number Ethyl is so long as----

A That is true.

Q So long as they stick to the 3.6 C. C.'s?

A That is correct.

(Page 11,745 follows.)

Q Then why do you not, why are you not equally careless with regard to what the octane is, of course, that goes back to your spread?

A Well --

Q You say we must, I, as a refiner might choose to use a very fine stock?

A Yes.

Q And make only standard gasoline?

A Yes.

Q And still keeping to your 3.6 c. c.'s of lead and make a standard gasoline which I would be prepared to sell and accept the price for it, with an octane number of about 74 but right away I run across your restriction and I suggest to you for your consideration so long as you have ----

THE CHAIRMAN: What restriction in particular have you in mind there?

MR. FRAWLEY: What restriction?

THE CHAIRMAN: Yes.

MR. FRAWLEY: His restriction that it must not go beyond 72. There is a clause in this contract, Mr. Chairman, that standard gasoline must not exceed 72, 70 octane by what they call the A.S.T.M.C.F.R. motor method and 72 octane by the method L-3, now would you not still have your differential, would you say your product, your Ethyl to be a permanent product with about ten octane numbers intervening ---

THE CHAIRMAN: Am I wrong in thinking that most of these standards are more than that, more than 74?

MR. FRAWLEY: I do not know that you can say that. Mr. Kaley has just said that there is a breaking away from that restriction in the contract by these people and the Ethyl company knows that it is going on and really has not devised much way of objecting to it because they put up arguments to the company that they are only endeavoring to meet the other fellow, it is the distinction which Mr. Kaley says, between laboratory performance and road performance?

A That is correct.

Q MR. FRAWLEY: But be that as it may, you told us a moment ago, a few minutes ago, that you only set that maximum for "Q" because you wanted to encourage in the mind of the public that your Ethyl gasoline, which is your principal, your advertised product, was better?

A That is correct.

Q And had a greater octane in it?

A That is right.

Q Then if you gave yourself ten octane numbers even, let me suggest to you concretely, you permit standard gasoline to go to 74 and Ethyl to go to 84, it is certainly going to 84 from what we have heard here very shortly, now would that would be all right, if they still used your 3.6 c. c. 's?

A I can see no reason why that would not be all right; we would be perfectly willing, I think, for them to go to 74 and 84.

Q The reason I put that to you is that we have heard something of that and it might be further developed, something of

there being no necessity in this altitude for anything better than a 74 octane numbered gasoline and just accepting that to be so for the moment, if you permit the refineries to go to 74 with standard gasoline, that would meet this suggested need with nothing more, there might be other difficulties and you might have other answers; you probably by the way, do not agree that 74 octane is good enough for this altitude, what do you say about that?

A Well, it would be my opinion that 74, let us make it 1 octane number higher, let us say 75 ---

Q All right, particularly if you will let us make 75?

A Ought to be satisfactory for 75% of the cars.

Q Yes, that is a very fair and frank answer from a man who makes Ethyl gasoline and thank you?

A The other 25% might have a little difficulty.

Q Yes, and that difficulty, and that difficulty could be, could it not, minimized considerably by motor adjustment?

A No, I would not say it could be minimized. You could get away from the knock but you would lose power, performance, economy and so on.

Q That is right, you could get away from some superficial insult to your ears but that is about all?

A That is right.

Q Now that is very fair. Now there are some other things that might be called restrictions in the marketing that I would like to talk to you about but first of all there is no competition, true, truly competitive products with tetraethyl fluid in the United States or Canada, is there?

H. W. Kaley

A There are benzol blends in the United States and I believe you have them in British Columbia. I doubt if you have any in Western Canada.

Q The Ford Benzols?

A Do you have Ford Benzol?

Q Yes, there is a Benzol Company that did market in the Ottawa district for some years.

A Let me answer this way, we have two outstanding blends in the States and if you use a percentage of let us say 35 to 40 Benzol, you will have a fuel which is every bit as good as Ethyl gasoline; now, of course, benzol and benzol blends are very much curtailed in their distribution because there is not very much benzol.

Q They are sold in the United States in very limited areas?

A Limited areas. They enjoy a nice sale where they are but I am thinking now particularly of the American Oil Company's products, Amico, which is sold from Maine to Florida but entirely on the sea-coast.

Q The Ford product is sold ----

A Around Detroit.

Q The Ford Company merely makes a fluid to be added to the gasoline?

A A benzol.

Q Just a benzol and it is added similarly to the way that Ethyl lead is added except in much larger quantities?

A That is correct.

Q The same dangerous factor?

A I would not be competent to comment on the toxic properties of benzol; there are some but I do not know

how much.

Q Now there is one other product that I at least have heard of and that is iron hydronol?

A Is that iron carbonyl?

Q Iron carbonyl, where do you get that?

A Iron carbonyl falls within our patent. We did a lot of experimental work, spent a good many thousands of dollars in the laboratory and we were never able to get away from two very bad properties, one is that the iron upon condensation tends to build up across the electrodes of the spark plugs and in a very short time will affect the plugs so much that you will not get any spark; the second is that you get a deposition in the cylinder of an oxide of iron; it builds up around your valves and all through the combustion chamber; we never could make it work.

Q Then so much for that product. Now it is fair then to pretty well assume that commercially speaking and generally speaking you have no competitor?

A I think as far as the nature of our product is concerned for anti-knock purposes in small quantities there is nothing like it.

Q How many refineries in Canada ---

Q THE CHAIRMAN: What about benzol, is it more expensive or what?

A A good benzol blend pretty nearly must draw about a 1 cent premium over ethyl.

Q MR. FRAWLEY: You mean to the refinery?

A To the public, that is the retail product, it is fairly costly, at least it is more costly than gasoline.

Q Now, how many refineries in Canada are there, in Eastern Canada or in Western Canada, manufacturing and marketing a standard gasoline say 70 to 72 or 73 octane, well using the same octane numbers that you used in your illustration figure?

A Yes.

Q Without the use of tetraethyl lead or benzol or some other?

A You say how many?

Q How many of them are there?

A I have not hear of any.

Q Are there any, do you know of any?

A No, I do not.

Q You license every refinery in Canada of any consequence?

A We license those which have applied to us.

Q Let me put it to you this way, those that are not licensed by you ---

A Yes.

Q Are not making and selling standard gasoline, I will put it to you that way?

A You mean standard quality comparable ---

Q I am using, the octane number is all I am using.

A Mr. Frawley, I must say that I am not competent to answer that because I do not know your grades of gasoline and there may be some that are sold that are as good as referred to in there but I do not know.

Q Without the use, I am eliminating benzol now and this

other product, iron carbonyl, and I am simply putting to you the possibility of there being any refineries in Canada making, without the use of lead, gasoline comparable to the average "Q" gasoline which is sold throughout Canada with your product added to it?

A Again I say I cannot answer that. I do not know of any.

Q You do not know of any?

A No. If you would like me to venture an opinion, I have not heard of any.

Q No. The Sun Oil Company is an outstanding example in the United States, that is amking a standard gasoline without the use of tetraethyl lead?

A That is correct and the Shell Company makes quite a lot of its gasoline without any lead.

Q Neither of those companies are, take the Sun first, it is not refining and marketing in Canada?

A No.

Q If they are marketing ----

A Let me change that, please Mr. Frawley?

Q Yes?

A I think they are now, yes they are, I am sure of it.

Q But are they not marketing as an Imperial jobber in the Province of Ontario?

A No, I think they are shipping their own gasoline in.

Q From an American refinery?

A Yes.

Q Then that would be a non-leaded standard gasoline?

A That is right.

Q Now their operations are confined to the Province of Ontario?

Yes.

Upon his return to Paris?

Yes.

From an unknown source?

No. I think this was only [illegible] in the

[illegible] conclusion of [illegible]?

Had any [illegible] in the [illegible] taken [illegible] in

A I think it was [illegible], but I am sure of it.

Q Who?

A [illegible]

Q [illegible] there?

A No.

Q [illegible] in Canada?

Q [illegible] of those communications, [illegible], it

[illegible] of [illegible] and [illegible]?

A [illegible] to [illegible] [illegible] [illegible] [illegible]

[illegible] [illegible] [illegible] [illegible]

Q [illegible] [illegible] [illegible] [illegible]

[illegible] [illegible] [illegible] [illegible]

A No. It was [illegible] [illegible] [illegible], I have

[illegible] [illegible].

Q Was [illegible] [illegible] [illegible]?

A [illegible] [illegible] [illegible] [illegible]. I do not know of any.

Canada [illegible] [illegible] [illegible] [illegible]?

[illegible] to [illegible] [illegible] which is sent [illegible]

Canada [illegible], [illegible] the [illegible], [illegible] [illegible]

to you the [illegible] [illegible] [illegible], and I am simply [illegible]

[illegible] [illegible], [illegible], and [illegible]

A They might go into the Maritimes, but I doubt it.

Q In any event they are bringing in an American refined product?

A Yes.

Q Then the other company, the Shell, they have a Canadian refinery operating?

A Yes.

Q But they are licensed?

A They use lead in Canada in both products.

Q So you may have just, your knowledge may not be as complete as you would like it to be but you cannot suggest any Canadian refinery that is making what I am calling "standard gasoline", meaning by that a 70 to 73 octane gasoline, without the use of lead?

A Let me see, let me answer it this way, I do not know of any one you have up here that compares for instance with the Sun that is making a good gasoline such as the Sun is, without the use of lead.

Q Now that being so and calling to your attention what the British American People told us the other day, that in their new refinery which has just been completed, they are unable to make gasoline of this kind we are speaking of, 70 to 73 octane, without the use of lead, it is pretty safe for the Commission then to accept the proposition that without the use of tetraethyl lead in this province anyway, a refinery would find it very uneconomical and unsatisfactory to go into the making of standard gasoline?

A I would think that is true.

Q That of course makes it very necessary that your granting, the granting of your licenses must not be subject to any undue restriction?

A That is right.

Q And you feel, of course, they are not subject to any undue restriction?

A Yes.

Q Now you license also, you insist upon licensing also the jobbers?

A Yes.

Q Who sell, well any sort of marketer?

A That is correct.

Q As distinguished from the refiner?

A Yes.

Q And a jobber making application to you, just simply a jobber making application to you for a license to sell Ethyl gasoline and "Q" gasoline finds himself faced with two different regulations then, does he not?

A No, I do not know what you are leading up to, Mr. Frawley.

Q What I mean is this, I am a jobber selling gasoline in the Province of Alberta, not manufacturing any gasoline or certainly no first and second structure gasoline and I go to your people for a license, am I given a license to sell Ethyl gasoline under my own name?

A No, sir.

Q Am I given a license to sell "Q" brand under my own name?

A Yes.

Q Now why, that is what I mean by being faced with two

regulations and why is that, Mr. Kaley?

A Going back to my statements which I made before, we service and look after the existence of a minimum quality of Ethyl; we practically guarantee the quality to the consumer through our advertising; now coming back to the jobber, if a jobber had his own brand and we found dilution, as we did, and I am talking now from past experience today, because 10 years ago we did issue licenses for two jobbers for their own brands; we found that not all jobbers are good jobbers and not all jobbers are even disinterested in substituting or diluting a product and we found Ethyl gasoline, when we took samples from curb pumps of jobbers who were just doing that, when they had their own brand we were never able to trace that gasoline back to the refinery from which it came. Now we hold the refiner mostly responsible. We do have jobber licenses and we do require the jobber to agree not to adulterate or substitute any product but at the same time basically it is the refiner that we hold responsible for the maintenance of quality; for that reason we only issue jobber licenses to jobbers to sell under the refinery brand because we want to make the refiner responsible.

Q Yes.

A If there was a jobber with his own brand the refiner would simply wash his hands of where that gasoline might end up or how it might end up so long as his brand was not used.

11. . . . . .

[illegible]

[illegible] ing [illegible] to this, Mr. [illegible]?

4 [illegible] ing [illegible] [illegible] [illegible]

Q I know, but I suggest to you you have a perfectly good remedy, if I am otherwise a reputable person or corporation desirous of entering into a gasoline business of my own and not desiring merely to sell Imperial Oil Company's Ethyl or the Texas Company's Ethyl of someone else's brand of Ethyl, but to develop a business of my own, why are you not satisfied with my own personal honesty and integrity and if I violate your regulations, then cancel my license?

A The great trouble with that is, Mr. Frawley, we might very well recognize your honesty and ability to operate in the manner in which we want and you would fulfill all that but you must remember that we have issued licenses to 15,000 jobbers and there are 10,000 who would want exactly the same thing we extended to you and in that 10,000 a given number would cause us trouble; in other words, I will put it on the precedent point of view, if you wish, if we could pick and be sure of the men, of the jobbers that we issued such licensesto and restrict the others, perhaps your plan would work but you have got to treat, at least it has been our experience, we have treated everyone the same, refiners or jobbers and if we would issue such a license to you, another fellow over here, he may not be honest, again, well he would have to have the same treatement.

Q I am wondering if you can see all the implications of it from the standpoint of the person in the business; now Ethyl gasoline is a quality product?

A Yes.

Q And it is very extensively advertised?

A Yes.

Q And it is desirable always for the man to get the advantage of the national advertising that any commodity has?

A Yes.

Q But by virtue of your system I would be, no matter how honest I might be or financially sound or how much security I could give you or how many bonds I might furnish to you, you would require that I would give all of the advantage of that advertising of your best quality products to either the Imperial Oil Company or the British American Oil Company or the Texas Company so far as the Province of Alberta is concerned, have you ever looked at it in that way?

MR. BLANCHARD: Or any other refinery that has a license.

MR. FRAWLEY: Yes, I just mentioned those because they happened to be the refineries.

A In practice, at least in the practice where I am a little more familiar with it, Mr. Frawley, the thing works the other way; there used to be, some 10 years ago, a great tendency of jobbers to use their own brands but as the refineries offered to them, and provided them with advertising, by far the great percentage of them have swung over to the refinery.

Q It may work that way. This Ethyl trademark is as well advertised as anything on the American Continent, I take it?

A Thank you.

H. W. Kaley

Q It is in fact, but you keep that trademark from anybody but your refiners?

A No, not at all. You as a jobber will buy Ethyl gasoline from a refiner.

Q But my identity is lost entirely. My identity is lost. I simply sell it as Imperial Ethyl.

A You still have the use of our trademark as far as we are concerned.

Q But I cannot use that trademark, ultimately use it in the building up of a business of my own. However.....

THE CHAIRMAN: Mr. Frawley, will we get copies of the Exhibits which were put in, "499", "500" and "501"?

MR. FRAWLEY: Yes, we will have copies made for you in the morning.

(At this stage the Hearing was adjourned until 9.00 A. M. 21st July, 1939.)

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The Province of Alberta

IN THE MATTER OF THE PUBLIC INQUIRIES ACT

—and—

IN THE MATTER OF a Commission, dated the 12th day of October, A.D. 1938, to inquire into matters connected with Petroleum and Petroleum Products

Commissioners:

The Honourable MR. JUSTICE McGILLIVRAY
(*Chairman*)

—and—

L. R. LIPSETT, ESQ.

Session:

CALGARY, Alberta July 21st, 1939

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I N D E X

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WITNESS:

Harry Wesley Kaley, recalled.....11,758

HARRY WESLEY KALEY, having been recalled, examined by Mr. Frawley said:

Q Well, Mr. Kaley, you will recall when we adjourned yesterday I was discussing with you what I was putting to you as rather, well politely putting the objectional restriction on the distribution of your Ethyl, of your premium product, in that you did not permit the individual jobber or distributor to market Ethyl gasoline under his own name; now have you anything further to add to that this morning at all?

A Nothing more than I said, Mr. Frawley. If we were to issue a license to any jobber to market under his own brand, we would have requests from a great many others and inasmuch as we have 15,000 jobber licenses I am sure those requests would be numerous and from past experience based on the fact that we desire to control the proper pump markings and quality we would not care to do it.

Q Then the only thing I have to add then is just to call to your attention what I will suggest to you are departures from the strictness of that rule insofar as this Province is concerned; I call to your attention the operations of the North Star Oil Company in Alberta; why do you permit the North Star Oil Company to sell Imperial gasoline under the name "North Star Ethyl"?

A We make no territorial boundaries so far as our recognition of the controlling company is concerned; we recognize North Star as a refiner and the fact that their refinery is in Saskatchewan makes no

difference to us; we would recognize them as a refinery in Alberta and not as a jobber.

Q Well then you see how far, I put it to you that the North Star Oil Company, it is true has a skimming operation in the city of Winnipeg which we were told the other day, and I take it you as General Sales Manager of the Ethyl Corporation, you are familiar with, the refining operation of that company does not extend beyond, I think, the Province of Manitoba and probably not the whole of the Province of Manitoba; in other words I put it to you as it was put to us, it is a small skimming operation making your products with the addition of lead from Texas crude, that is the operation at the moment and throughout the Provinces of Saskatchewan and Alberta the North Star Oil Company is a jobber, pure and simple, certainly in this province, only a jobber, and I put that to you as an existing fact and your answer is that it is a refiner in the city of Winnipeg and that insofar as you are concerned you license it to buy and sell; in other words become a jobber anywhere in Canada and sell under its own name, your Ethyl gasoline?

A In the first place, Mr. Frawley, as I recall Mr. Clayton's testimony, it is not just a skimming plant; I believe he said they had a cracking unit over there. I am not sure about that.

Q I did not understand so.

A I may very well be wrong but really to answer your question, the very fact that they produce their own

products there and buy them here and resell them, makes no difference in our opinion of them as refiners; now, if you recall the first clause under "Sales" in our license permits one refinery to buy products from another refinery and resell them and that is the reason for that clause. It is done every day.

Q But I am only suggesting where it leads you, take the Lion Oil Company, they have recently got a refiner's license from you?

A Yes.

Q Let us assume that the Lion Oil Company goes over into Manitoba and starts a jobbing operation there, purely a marketing operation, they could not possibly take their refined products into Manitoba or say into Ontario, to even extend the illustration, you say nevertheless, to us, to the Ethyl Corporation the Lion Oil Company is a refinery and "you can sell Lion Ethyl all over Canada"?

A Anywhere in their license.

Q Anywhere they are licensed?

A That is right, any territory.

THE CHAIRMAN: By the province.

Q MR. FRAWLEY: Well, assuming they have a license from every Government of the province in which they operate ---

A I say if on our own license.

Q You give them a refiner's license and you care not where they use that refiner's license once they have qualified,

as it were, as a refiner, then the restriction, I will say, of that Company's name in association with your Ethyl gasoline disappears and they can sell Lion Ethyl in Ontario although they were buying it in Ontario from the British American Oil Company or in Quebec even if they were buying it from the Imperial, in the Maritimes, although they were buying it there from the Texas Company, that would matter not at all?

A That is correct.

Q Now I will put another suggestion to you, you have granted a refining license to the Bell Refining Company?

A Yes.

Q Now, I wonder, I do not want to put this suggestion any stronger than it should be put, but I wonder, what care you take or what concern you have as to the discontinuance or non-user, I should say, of that license; I put it to you that there is a non-user of your license insofar as the Bell Refining Company is concerned now and probably will continue to be such, is that no concern of yours so long as that Company retains its corporate entity?

A As long as that Company retains its corporate entity we would continue with them without cancelling their refiner's license.

Q Now I want to put to you what the result of that in my submission is, the Bell Refining Company is a marketer pure and simple in the Province of Alberta and a very limited marketer, does not go out of the city of Calgary, with I think one small exception, a small operation in one outlet in the city of Edmonton, perhaps a very very few, a very small jobber operation, we know owned by the

British American Refining Company, and it is as a jobber that it competes with other jobbers such as Mackenzie and other refineries such as the Lion and Mayland and so on but the fact is that that company, by viture of this refining license which they do not use, is entitled to produce and sell Bell Ethyl and get the advantages that I put to you yesterday of the national advertising associated with your label "Ethyl Gasoline", that is a fact is it not?

A Well, I would like to answer that this way, Mr. Frawley. I think it is true that there is, that it is perhaps a bit inconsistent and the only way I would answer that is this way, we have never cancelled a refiner's license merely because they were taken over by somebody so long as they retained their corporate entity. We have never cancelled a jobber's license. In other words, we are slow to cancel any kind of a license, once the holder has it. Now it is entirely possible that we should cancel the Bell license. I am not prepared to say, if they no longer refine and market merely as a jobber, it is in effect extending to the British American Oil Company the use of two brand names I suppose. Now that would appear, and I think that you have some right to feel that we are inconsistent in that respect, but as I say the reason we have not taken any action is exactly the same as perhaps we have not in other cases that is we do not like to cancel licenses once they are in existence.

Q Well that is a very fair answer and I put it to you again and with no desire to flatter you or your Company, that there is a great deal of prestige attached to the Ethyl label and you should be concerned to see that there is no discrimination and I put it to you it amounts to a discrimination to permit the Bell Refining Company by reason of the non-user of its refining license and its operations only as a jobber, to take precedent over some other jobber to whom you have flatly refused to grant the use of the Ethyl name in connection with their products; now I cannot say anything more than that. I simply put it to you that probably that does amount to a situation which should not be continued and I also put it to you, and of course to the Commission for its consideration, that you should make some distinction between the operations of a refinery as a refiner in certain territories and the operations of that firm as a jobber in other territories; I put it to you, Mr. Kaley, that the North Star Oil Company is regarded by no one in this territory except as a jobber and it is policy on your part perhaps to permit that company to take advantage of its refining contracts to purchase its requirements in this territory from another refinery under its own name but I again suggest to you the way it works out, the way it works out in this particular territory?

A I certainly cannot go along with you on your viewpoint of the North Star, Mr. Frawley. I think that generally speaking I would imagine that the layman on the street in Alberta believes that the North Star is a refiner; I would think that. The people in the trade may know

because they may know that they buy and sell their products but I would, - and I am just guessing of course, - but I would think that the North Star is thought of as a refiner. Now I do not think those two cases are comparable at all, I mean the Bell and the North Star and we must, certainly would consider the North Star as a refiner regardless of where they operate; they are probably holders of a refiner's license and are known by that, I mean your Governmental license for a refinery.

Q There you are again, in this province they are licensed as wholesalers and that is all, just licensed as wholesalers. You see there is a provincial jurisdiction as well as a Federal one. The refining license, I may say, is a Federal license which is not granted, the province itself has nothing to do with this license up to date although one never knows when they may start to, but in this province the North Star Oil Company is simply licensed as a wholesaler of Ethyl products?

A About the only answer I can make to you, Mr. Frawley, is that we consider them a refiner. We have many, many cases among our refining licensees where they market their own products in one territory and buy and sell in others and from our point of view at any rate, they are refiners and are entitled to the use of their own brands.

Q You have instances of that in the United States?

A Oh many, many more than you possibly have here.

Q Yes, I would suppose you would have. Well, I will leave it at that. As I say again there is a value attached to

the use of the Ethyl label and I think you should be zealous, - as I am sure you are honestly trying to be, - to see there is no discrimination among the same group, I put it to you, in the industry?

A We certainly are trying not to show any discrimination among any of our licensees.

Q Now you have said, and I just want it on the record ---

Q THE CHAIRMAN: Before you leave that subject, Mr. Frawley, of the jobbers, why do you issue jobbers' licenses at all?

A The jobber, Mr. Chairman, buys by tank car from the refinery. He may be located in an area entirely apart from the refinery or outside the refiner's supervision. In many cases if the refiner is not in operation near the jobber he may have no control, he may have no supervision whatsoever over the activities of the jobber. Now as I said yesterday, the jobber's license which we issue asks the jobber to do two things, one of them is to see that the regulations are adhered to, that is the warning sign on the pump; the second one is that he shall not dilute or substitute. If the refiner has no semblance of control or supervision over the jobber, we find that in many cases the jobber pays no attention whatsoever to the posting of warning signs and he may substitute inferior products; for that reason we would like a separate agreement with the jobber whereby he agrees to observe those things. Does that answer your question.

Q THE CHAIRMAN: Yes. Now what useful purpose

does the jobber serve in your opinion, you have considered this, I suppose, in connection with the trade?

A That is a question, Mr. Chairman, which I am not qualified to answer, I do not believe. I have never been in the oil business myself. From observation I can just give you a personal opinion, which is this ---

Q In short, why this particular middle-man?

A It is only a personal opinion but I feel that the jobber, nine out of ten of them are local men. They have friends in a given community. They are usually mixed up in civic activities of one kind and another, fraternal organizations, they have a standing and a hold in the community that very often the larger company cannot gain and that standing delivers to them a certain amount of business and it is very hard for the division manager or the agent of a large company, going in there and starting a branch, to secure, and I think it is the local nature of the jobber and the fact that he is a member of the community that brought him the business.

Now whether he is a justifiable part of the oil industry or not I am certainly not prepared to say but I do feel that that is the reason the jobber became a part of the oil business.

Q He, of course, might get more business for the particular company whose products he is selling, one can understand that?

A Yes.

Q But when there are four or five outlets in one town under the jobbers' names, one can understand that the products

of the particular companies or company for whom these jobbers act, would be increased in volume?

A Yes.

Q The sales of it would be?

A Yes.

Q But from the standpoint of the public, what part, useful part, does he play, if any, that you can suggest?

A Mr. Chairman, I am afraid my exporience would not qualify me to answer that. I just do not know.

Q MR. BLANCHARD: Mr. Chairman, before we leave this question of jobbers' licenses, may I ask one question?

MR. FRAWLEY: Yes.

Q MR. BLANCHARD: In jobbers' licenses you have the refiner's brand mentioned?

A Yes.

Q For instance in the Lion?

A On Ethyl, Mr. Blanchard.

Q On Ethyl?

A Yes.

Q For instance in the Lion contract it is "Texaco"?

A Yes.

Q Now is there anything to prevent ----

MR. FRAWLEY: In the refiner's contract?

Q MR. BLANCHARD: No, in the jobber's contract?

A In the jobber's contract.

Q Which is not in force yet, although there is now a refiner's contract issued, but in that jobber's contract it provides that they must use the brand, the Texaco Ethyl gasoline?

A Yes.

Q Now is there anything to prevent the Lion Oil Company as a jobber, I am taking it as one example ---

Q THE CHAIRMAN: And they now are, I take it?

A Yes.

Q MR. BLANCHARD: As they now are, is there anything to prevent the Lion Oil Company from notifying you next week that they proposed to use the British American Brand or the Imperial Brand, that is can they change their refinery connection?

A Oh, you mean can they change from the Texaco Company for instance to the Imperial or the British American?

Q Or any other?

A Or Gas Products?

Q Yes.

A Or any refinery?

Q Yes.

A It will, so far as we are concerned, they can.

Q You do not dictate what refinery they are to be tied up with?

A Not in any case. They can make their own selection of the supply.

Q THE CHAIRMAN: That is not so, of course, with the "Q" brand?

A Yes, it is. They can make the selection of their supply there and they not only can make these selections but if licensed under their own individual brand they can buy from any refinery or two refineries at one time if they desire so far as we are concerned.

Q THE CHAIRMAN: Am I wrong about this, they may not sell gasoline under their own name?

A Yes, they can sell gasoline under their own brand.

Q They do not have to associate any refiner's name with that?

A No, sir.

MR. FRAWLEY: That is the distinction, Mr. Chairman. They permit jobbers to sell "Q" but they very carefully restrict the jobber in the sale of the Ethyl, in the name he uses in the sale of Ethyl. Now, Mr. Kaley ----

Q THE CHAIRMAN: Just why is that, if you please?

A I can answer that very quickly, Mr. Chairman, in this way. If you will recall the standardization characteristics of the two products, I said we are not so much interested in the quality of "Q" except that it must be a good gasoline.

We do not attach our trademark to "Q" and there are no minimum specifications for "Q" but when we come to Ethyl we have established a minimum specification. It must be an excellent gasoline of a certain quality.

Q Yes?

A We have attached our trademark to it on which we built up good will.

H. W. Kaley.

Q I remember well what you said about that but why are you so interested in Ethyl being a perfect gasoline, so far as may be, and comparatively disinterested in the "Q" brand that is going to a greater number of people?

A We look upon the use of lead in "Q" brand more as competitive with other means of getting anti-knock. In other words, it will give you very much the same anti-knock value by cracking or by additional benzol or by any other method, and lead is merely competitive with those other methods.

Q But not to any extent, as I understood you yesterday. Your competition is not great. It is local for benzol and not at all serious for the other products?

A Speaking only for Alberta, Sir. There is a lot of competition in the oil industry between the use of lead and other means of securing anti-knock.

Q MR. FRAWLEY: Not in Alberta?

A Not in Alberta.

Q THE CHAIRMAN: What is that competition, if you please, if I am not taking you back over too much ground. You add this benzol blending fluid?

A Yes.

Q And then there is iron carbonyl, is it?

A Carbonyl.

Q How do you spell that?

A C-a-r-b-o-n-y-l.

Q That is negligible?

A Yes, Sir.

Q I understood you to say benzol while real competition where they did compete?

A It is not great.

Q Was not great competition?

A That is right, yes Sir.

Q That was local?

A Yes, Sir.

Q And relatively small?

A Yes, Sir.

Q Now, what other competition have you?

A The ones you have mentioned are addatives as is tetra-ethyl lead. But you can secure anti-knock value in the product as high as, well, there is no limit, by means of cracking, thermol or catalytic cracking, and polymerization.

Q Yes?

A And isomerization. There are various chemical means of refining technique that will give you high anti-knock. I think it is better to classify the whole bunch as merely means of refining.

Q Yes, I see?

A And reforming is another one commonly practised.

Q What percentage of refineries in the United States and Canada would you say had made use of your tetra-ethyl lead as distinguished from attempting to get anti-knock value in the ways you have last mentioned?

A Those ways I have mentioned, Mr. Chairman, consist of a combination of those methods plus the lead in most cases. There are very few refiners who do not use any lead. They use some lead but they secure a certain amount of anti-knock value by various refining methods. So that even within one refinery we are competing with various refining practices. They might decide to crack or reform to a

higher octane number or they might decide to crack and reform to not such a great extent and add more lead. The two processes, the use of lead and refining for anti-knock are competitive within any company. To answer your question specifically, there are only very few refiners of any size in the United States that do not use some lead. And in Canada, well, I think I am right in the same statement, there are very few of any size that do not use lead. But it is not necessarily the case, and when I mention competition with cracking processes of either using one or the other, They mostly use both, but to a greater or lesser degree. Do I make myself clear?

Q Yes.

Q MR. COMMISSIONER LIPSETT: Mr. Kaley, you mentioned to the Chairman sometime ago about these jobbers' licences, and I gathered that the reason for them was insuring a warning notice being put up on the pump and to avoid dilution chiefly?

A Yes, Sir, that is the main thing.

Q I should like to follow that up a little bit further and have you explain to us how the licence to the jobber will insure that result when the product comes to the dealer?

A Do you mean the jobber's dealer or any dealer?

Q I mean any dealer. The dealer that the jobber as a wholesaler supplies as distinct from the service station that he runs himself?

A We feel that if the jobber signs the licence agreement with us and our representative calls upon him from time to time the responsibility for his dealers rests upon him and it is assumed he is near enough to his dealer that he will check on the dealer's pumps and his qualities and

if he finds dilution or failure to observe the precaution notices that he should take some action. He is the responsible party along with the refiner who supplies him. I think the difference there in that we require the licence of the jobber is due to the fact that the jobber may and usually is located some distance from the refiner and may have no supervision from the refiner.

Q But too any dealer may be situated a long distance from the jobber and the onus is thrown on him that he will go out and check up the dealer once he sells his product?

A He signs the licence with us whereby he agrees not to dilute or substitute and also to see that his dealer does not dilute or substitute.

Q Has any attempt ever been made to enforce that?

A Yes, Sir. We have collected samples, and this has happened many times in the past, and found that dealers were diluting and substituting, in which case we took it up with the jobber and usually we have never had to to so far as to say "Now, you must stop selling that dealer", because when we took, it up with him and it is called to the dealer's attention he knows he is caught and it is usually sufficient that he won't do it again.

MR. BLANCHARD: That is covered by the standardization clause in the jobber's contract. That is clause 3 in the jobber's contract in which it says : "Further, whenever Licensee sells said gasoline for resale it will obligate the purchaser to comply with the terms of this clause entitled 'Standardization,' and will reserve the right to cancel its contract of sale for breach of such clause."

That is the control exercised over the retailer.

Q MR. COMMISSIONER LIPSETT: You think in practice that largely controls the situation without having any contract or licence with the individual dealer?

A That has been our experience, Sir. The dealer must be served by tank waggon so there is always someone to check up on him. In other words, he secures his products from the tank waggon, either of the refiner or the jobber, and there is really no need when you put the responsibility on the person who serves him.

Q THE CHAIRMAN: That is equally true when the jobber gets his products from the refiner too?

A Not necessarily, because the jobber might buy by tank car and very often it has been our experience, not necessarily here in Canada but in the States, that refiners are only interested in getting an order for a car of gasoline, shipping the gasoline and getting their money for it. A great many of them do business just by telephone. They have no salesmen in the field at all and consequently no supervision of their customers.

Q MR. FRAWLEY: Mr. Kaley, I do not want to be threshing old straw. You said yesterday there were no refiners' licences had been refused. I take it by that you mean all licences in this jurisdiction which have been applied for have now been granted?

A Have now been granted. I found out after I left the room last night that one of them had been rejected and afterwards issued.

Q As late as July, 1936, the Gas & Oil Products Limited were refused a licence by Mr. Taylor, your General Manager.

H. W. Haley.

They have now in the year 1939, is it, have been licensed?

A Yes, Sir, they are now licensees.

Q Is the Goodrich Company operating near Toronto, with respect to which there was a lot of talk one time, are they licensed?

A I think they are applying for a licence right now. But I do not think any action has been taken up to the present.

Q That means they have been in the process of applying for a licence for a considerable time?

A Yes, I know they approached us sometime ago.

Q Don't you recall that was brought very much to the fore at the time of the Tariff Board Hearing in February, 1938, that the Goodrich Company went and protested very loudly to the Tariff Board?

A I did not know that. The application for refining licences are handled in our office by Mr. Taylor, I handle them in his absence, but they are handled entirely by him.

Q That is only of passing interest. Whether it is a change of heart or not it is a very good thing to know now and have on the record that all persons who have applied for licences in this province, particularly the refiners, have been licensed?

A That is right.

Q The same situation exists with regard to applications for jobbers' licences?

A Yes, Sir.

Q You go through a certain routine when you get an application for a licence, don't you?

A Yes.

Q You examine the quality of the base stock which the refiner

intends to use?

A Yes, Sir.

Q And you examine into the financial ability of the refiner?

A Yes.

Q Why are you very much concerned with that?

A We expect to be paid for the products we ship.

Q You could just put him on a cash basis. You seem to go, if I am informed correctly, you take considerable pains to find his financial stability generally?

A The reason for that is, Mr. Frawley, if he is a prospect for, let us say, a small car of fluid, that is an $18,000.00 investment.

Q Yes?

A And that is a lot of money.

Q How about drums. Let us forget about tank cars. I do not think some of our refiners could handle a tank car?

A Well, 16 drums of fluid is worth approximately $5,000.00 and even that is quite a lot of money to a very small plant, as you seem to be talking about now, in Alberta. We have lost money in the past due to bad debts, bad credits.

Q Yes. It is nothing more than the desire to make certain you are going to be paid for your product?

A That is correct.

Q Because whether he is wound up does not matter a great deal to you so long as you are paid for your product?

A Whether he is what?

Q Whether he goes into bankruptcy, after he pays for your product?

A We would like to do business with people who have had a

continuity of business life, if I make myself clear. People who have been in business and we have every reason to suppose they are going on. We have, particularly in the States, and through Texas, quite a few of what you might term "fly-by-night" refiners. They follow flush production. They are in and out.

Q You do not like to play up too much with them?

A No, Sir.

Q There is another thing. Is it a practical suggestion to ask your company to afford some warehousing facilities in this faraway place from your point of manufacture in Deepwater, New Jersey?

A I think it would be most impractical for us to do that, Mr. Frawley. In the first place it would not pay us to do it. The amount of business that we would gain in Turner Valley, I assume you are thinking of that field and the small refineries there, the business we would gain would not pay us to establish any.

Q I do not mean only Turner Valley. Well, yes, Turner Valley production. Take Calgary, that would seem to be the logical place with two fairly large refineries and two or three others in the district?

A Well, if you are speaking of the companies who have refineries here, I mean our licensees now, the Imperial and the B. A. and the Oil & Gas, and so on, they are perfectly willing to go on as they are now.

Q Buying in tank car quantities?

A The only additional business we might dig up by doing it would be the small refiners at Turner Valley.

Q Where does the product move from. It does not all move from Deepwater, New Jersey?

A All of the drum shipments come from there. We are not equipped at Baton Rouge to ship in drums.

Q Wherever it goes, it goes from those two points?

A Yes.

Q Seattle, for instance, refiners in that part of the United States must buy their product from Baton Rouge or New Jersey?

A One or the other.

Q I have only one more thing to discuss with you, it is something that we have heard considerable about. Your licences are limited territorially, generally speaking?

A Yes.

Q There is insofar as this territory is concerned, one outstanding exception?

A Yes.

Q The Texas Company?

A Yes.

Q Why that outstanding exception?

A We have taken the attitude on the issuance of licences in Canada - or I will change that. To begin with, we have not permitted refining companies, licensees, to ship treated gasoline into Canada because we have had the feeling that Canadian refiners were entitled to the Canadian consuming business, primarily because they have an investment in Canada, they use Canadian labor, they have established themselves, most of them own real property. In other words, to put it all in a few words, the Canadian business we felt should go to the Canadian refiner. Now, that is not true-----

Q THE CHAIRMAN: Are you speaking only of Ethyl?

MR. FRAWLEY: I am speaking of----

A Treated gasoline, both.

Q The two top grades, Ethyl and "Q" gasoline?

A That is not only true for Canada. We have not permitted the shipment from any country to another country where it appeared that the demand was satisfactorily met in that country. We would not permit, for instance, a Canadian refiner to ship gasoline into the United States.

Q No?

A Now, that is a general statement and an over-all statement of the picture.

Q Just before you go on, let us be quite specific. If the British American Oil Company had a refinery at Coutts you would not let it send its lead-treated gasoline over into Sunburst?

A The only reason we would permit them to do that would be with the possibility of that exception which I am about to mention.

Q I see?

A In this Province the Texas Company is licensed to market.

Q Is licensed to-----

A Is licensed to market here in Alberta.

Q You mean it holds a Provincial licence to distribute?

A No, I am talking about our licence.

Q Oh, yes?

A The Texas Company is licensed to market here and we look upon the Texas Company of Canada as a Canadian company. They have real property. They have a brand established. They use Canadian labor and so on, the same as the other companies. We have taken the attitude, not only in the case of the Texas Company but in several other cases outside of this Province that if an American company has a subsidiary company in Canada we have extended, or not

extended, but issued a licence for them to market in Canada. I can tell you two more examples. The White Star Oil Company, located in Detroit, is an American company. For many years they had a subsidiary company which marketed in and around Windsor, called the White Star Oil Company, Limited. The National Refining Company at Cleveland, an American company, were the owners, or at least had a controlling interest, I understand, in Canadian Oil Companies Limited. Now, when we issued licences to those United States concerns, which are exactly in the category as the Texas Company, we also issued licences to their Canadian affiliates, looking upon these Canadian subsidiaries as Canadian companies in every sense of the word. Now, it is true that we have refused, at least it is not-----

Q THE CHAIRMAN: You are treating them as separate legal entities. You recognize them as Canadian companies, as such?

A Yes, Sir.

Q Could any refiner in the United States ship to the Texas Company of Canada, any refiner who is licensed by you?

A No, Sir.

Q Well, then, you are not carrying that separate legal entity to its logical conclusion?

A The way that will probably be done, I should think, if the Texas Company wanted to buy gasoline from a refiner in the States, they would buy it and ship it to their subsidiary here.

Q Yes, but you seem to be giving an advantageous place to those who have subsidiaries in Canada, don't you. I mean why if fundamentally you act as you do, because the Texas

Company of Canada, for example, and we mention them as an illustration only?

A Yes.

Q You say there are others in Canada just the same. You think of them as a separate, entirely separate legal entity?

A Yes, Sir.

Q A Canadian corporation owning property in Canada and paying taxes in Canada?

A Yes, Sir.

Q Then if treated gasoline, treated with your product, can be shipped to them as a Canadian corporation, separate and distinct from all other corporations, from the United States of America by a refiner there which may be the parent company it is true?

A Yes, Sir.

Q Why should not all other refiners be able to ship it in?

A Principally because of this reason, that we issue a licence to the Texas Company to market in Canada, I am talking about the Texas Company in the States have a licence to market in Canada. Another company could not do that because they would have no such licence and we would not issue such a licence because they have no subsidiary company.

Q In short, the American company that has a subsidiary in Canada, has the advantage, if it be an advantage, of shipping your product to that company in Canada?

A I think I must admit that is right.

Q And if refiners in the United States want to get that particular product into Canada they must set up subsidiaries here?

A That is pretty much right. I would like to say this along that line, we have had many requests, and when I say many it might be twenty or at least a dozen from various refiners, to ship into Canada, and we have declined for the reasons which I have mentioned, plus the additional and more important reason that refiners, perhaps Texas or Oklahoma refiners, have no representation in Canada. They have no salesmen even covering Canada. The only thing they are interested in is shipping a tank car from their refinery to Canada and getting their money and forgetting it, in which case hwe have no idea how the product will be handled. Now, if a company has a subsidiary in Canada, we can be sure of supervision of the product and that is the reason we have differentiated. I do not say it should even be a subsidiary, but an interest.

Q MR. FRAWLEY: I was going to ask you that. You said lastly that the licence was issued the Texas corporation to export into Canada?

A That is correct.

Q Your product. So if the Imperial Company had a breakdown in its plant to-morrow they could go, so far as you are concerned, they could go to Sunburst and get their requirements and the Texas Corporation could export the Imperial Oil Company in Calgary all its requirements?

THE CHAIRMAN: I did not understand that.

MR. FRAWLEY: Well, I hope that would be so.

THE CHAIRMAN: I understood just the opposite.

A I am not sure about that.

Q MR. FRAWLEY: I think that is what you said. So let us look at the licence?

A I did not say that, Mr. Frawley, because I am not sure

just how that would work out. It has never come up.

Q Exhibit "497", the contract which is issued to the Texas Company, that is the American Company?

A Yes.

Q And any and all present and future subsidiaries of the Texas Corporation?

A That is right.

Q The addendum says the Dominion of Canada. It does not say to the one single Texas Company of Canada. It says to the Dominion of Canada. Surely if the Texas Corporation made issue of it with your company, surely they are entitled to ship to anybody in the Dominion of Canada, consumer, refiner, jobber or anybody else?

THE CHAIRMAN: I have not read the contract. But that is not what the witness said. I understood the witness to say that they would not allow them to ship into Canada except in case where they had a subsidiary here, and the Imperial Company, I am assuming, is not a subsidiary of the Texas Company. Therefore, whatever they might do as a matter of generosity in a distress situation when they broke down, and all parties might waive the rules for a week, I did not understand the witness to say that that was the rule?

A When I answered your question I was not thinking about sales to a refiner. I was thinking about sales to a jobber, which would make a lot of difference. Now, as regards the Texas Company selling to another refiner in Canada, I do not believe that has ever come up.

Q MR. FRAWLEY: No, I do not believe it has ever come up. It is an operation between the Texas

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Corporation and the Texas Company of Canada but I want to explore it all and see what the situation is. I simply put it to you having given them this contract you have given the Texas Corporation at Sunburst the right to export its leaded products into Canada and into anywhere in Canada, and to any consignee that is otherwise licensed to receive it by your corporation?

A That is correct.

Q Be he a jobber or a refiner?

A Yes.

Q Is that not so?

A That is correct.

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Let us understand of course that we still have the right to say whether that license shall be issued for exporting products and so on; the issue of the license is still in our hands so far as jobbers are concerned.

Q True, but if the X. Y. Z. Oil Company, just an ordinary jobber in Alberta, was able to make some, establish some connection with the Texas Corporation in Sunburst, to sell its Ethyl as Texaco and its "Q" as X. Y. Z., then all the requirements would be met and that gasoline then could come from the Texas Corporation to the X. Y. Z. Company, a jobber at Calgary?

A I would think that those arrangements would be made by the Texas Company of Canada.

Q I know, and you see that is the fact, we know it is just as tight as that between the Texas Corporation and the Texas Company of Canada, but I am putting to you the simple fact of your agreement, that is all?

A Let me explain it to you this way, Mr. Frawley, back in 1930 when we signed the Texas Company contract-----

Q The 28th of February, 1930?

A That is right, and I think I am correct in this, that the Texas Company had distribution in Canada, up here----

Q Some, probably, yes?

A Probably, now you can easily see at the time of negotiating that agreement that the Texas Company, which is a big piece of business, we would not be in a position to say "Yes, we will issue this license for the United States but you cannot ship into Canada to your subsidiaries or affiliated companies".

Q Now that is a very frank answer and I am not accusing you of any crime in connection with it, with the making of it, or indeed any crime now, but I want to put to you, not by way of an accusation, but the very discriminatory way in which it is working out now; perhaps you know enough about it that I need not elaborate upon it?

A I only know this, Mr. Frawley, if we would permit the import into Canada by licensees of ours within the States, there would be no control whatsoever exercised in many cases from the health standpoint or the quality standpoint.

Q I know, Mr. Kaley, you said that, but let us take the Home Oil Company in Great Falls, which is the nearest neighbour to the Sunburst Refinery, having a license of yours?

A Yes.

Q Let us assume the Home Oil Company is honest and are good marketers, refiners and marketers of petroleum products?

A Yes.

Q And perhaps if they were not they would not be licensed?

A That is correct.

Q Let us suppose they came up here into Canada and established two or three bulk stations close enough to the Southern line, say that they came in to Warner, which is near the Southern Boundary, certainly they could not ship a gallon of leaded products into that station?

A There is absolutely no doubt in my mind if they established themselves up here by the ownership of bulk plants as you state and had a supervisory force in Canada we would issue a Canadian license to the Home Oil Company.

Q All right. Now let us say, that seems to be the thing that makes the big difference, now we have a company called the

Artic Oil Company, let us assume they are efficient marketers and honest and reliable, now let us assume the Artic will have all the supervising force that your representative Mr. MacFarlane will----

A May I interrupt you right there?

Q Yes?

A Now that assumption that you make may be entirely correct in the case of the Artic Oil Company but it may be that it is not the assumption in the case of some other company who may not be the kind of marketer you mentioned.

Q I know. I do think, if I may be so bold as to say it, that you have taken on the white man's burden in trying to say it is just such a marketer that will do it in the right way and another marketer will not do it in the right way. I think you have to just learn as you live?

A We have had a lot of experience, Mr. Frawley.

Q Take the Artic Oil Company, because that is one I want to bring to your attention, the Artic Oil Company cannot go down to the Home Oil Company and secure its leaded products?

A That is right.

Q But it can go to another place ten miles away in the State of Montana and get his products there, now why that?

A Will you repeat that.

Q I say the Artic Oil Company today, this is the actual operation, the trucks of the Artic Oil Company today and yesterday and tomorrow go into the Texas Company's refinery at Sunburst, fill up with leaded products and bring them to their stations in Alberta, that is actually what happens; now those same trucks cannot go ten miles further or fifteen or twenty miles further, whatever it is, to the refinery of

the Home Oil Company in Great Falls and do the same thing?

A If that is being done, Mr. Frawley, that is without our knowledge.

Q I will tell you how it is done----

A Without mine anyway.

Q Certainly it is being done and this is what the Texas Company of Canada does about it, they sell them these goods on a Coutts landed basis, the transaction is between the Texas Company of Canada and the Artic Oil Company at Coutts but the Texas Company, because it is good business and because of I suppose just good sense, they go down there and let them get it, which I suggest to you you should let everybody do, they go down and do it, the Artic Oil Company goes right to the refinery in Sunburst and gets their products but they do not pay for it there, they do not do any business with them except the very important matter of getting the product, then when they get to Coutts a bill is made out, it is charged by Mr. Meltabarger's company, duty paid and excise and so on from there, but the physical transaction is just as I have put it to you. Now I suggest to you, if that does not strike you as being, what shall I say, an abuse of the privilege you have given the Texas Company in this agreement Exhibit "497" (Z)?

A Certainly if it is being done it is without our knowledge. At least I had no knowledge of it.

Q That is the way the Lion Company, that is the way all the jobbers, let us not talk about the Artic alone, the Lion, they only have two, but they may have more than two tomorrow, that is the Texas Company of Canada, all of the jobbers of

the Texas Company do that very same thing?

A Strictly speaking that is a violation of the contract then, I say, between the Texas Company and us because that delivery is being made by the International Refining Company in Montana who are not licensed to market in Canada and have no right to deliver gasoline directly to jobbers in Canada.

Q Well let me put it differently, supposing they did not do that, supposing you pointed that out to the Texas Company and they discontinued that operation and the stuff all came through to the Texas Company of Canada which has a big warehouse down at Warner near the border, and then the Artic Oil Company came and took it from the big bulk plant at Warner?

A That is right.

Q You would be satisfied with that?

A Yes, it is merely a technicaltity, Mr, Frawley, after all.

Q I am not making a point of it going into the refinery but I am making a point of the fact that that jobber, duly licensed to sell your products---

A Yes.

Q And therefore presumably an honest and reputable person?

A Yes.

Q Cannot go to any other refinery in the State of Montana or in the whole of the United States of America but the one corporation, the Texas Company, and that is what I put to you as being discrimination?

MR. MELTABARGER: Mr. Frawley, May I-----

MR. FRAWLEY: I would like to have Mr. Kaley answer that, any explanation you want to make you

might give later.

MR. MELTABARGER: May I ask a question.

Q THE CHAIRMAN: Answer the first question first?

A I did not think you were asking a question. I got it as a statement.

Q MR. FRAWLEY: I know, but I would like your views as to whether or not that is so or is not, I suggest to you that is discrimination?

A Will you repeat it.

Q Yes, I suggest to you it is discrimination that a jobber in the Province of Alberta, setting out to market petroleum products, desiring to market leaded Ethyl products, desiring to bring in Montana petroleum products, cannot go to any refinery in the State of Montana, or for all practical purposes, anywhere in the United States of America, but to the Texas Corporation at Sunburst, Montana?

A I think that is, I do not like the word "discrimibation" in favour of the Texas Company but it is a fact that the only United States Refinery who could ship gasoline in here to be delivered to any jobber as the thing stands today,-of course there are other refineries licensed to market up here, who are not marketing,-but as the thing stands today the Texas Company is the only refinery that can supply them.

Q Yes, so I put it to you, one specific case, of a large taxi-cab company in Edmonton that went all the way down to Great Falls to buy his Ethyl products and desired to buy ordinary "Q" standard gasoline from the Home Oil Company in Great Falls and had to come back with his tank empty, I think he bought something else , but I put this to you, if he had

stopped on the way down in the City of Calgary and made certain arrangements with the Texas Company of Canada, he could have gone with that truck into the refinery at Sunburst and filled up?

A You are telling me something there which I know nothing about. I would like to say this, Mr. Frawley, if I may, there is no way in which we can differentiate between a refinery in Montana and a refinery in Texas, is there.

Q Yes?

A Now it so happens that you have this opportunity here to run a truck over the Border and pick up gasoline but is that any reason for allowing a refinery to ship into Canada from Montana than it is for a Texas Refinery to ship a tank car into Canada?

Q No, but let us not be too disturbed about the truck. I put it to you in the larger way-----

A Yes, but that seems to be the particular issue here of a man going down and picking it up and bringing it back. You might as well say a tank car from Texas.

Q Yes, but whether it is a tank car or truck?

A We license the Texas Company;----

Q Yes, and you limit it entirely to the Texas Corporation. Now let us have it-----

THE CHAIRMAN: Let us make these questions shorter, do you, do you limit it entirely to the Texas Corporation, is that a statement or a question?

A In this Province, Mr. Chairman, the only, United States Refinery that is in a position to ship into Alberta is the Texas Company. That is a statement, not by license because others are licensed, but in practice that is the situation right now and I have endeavoured to explain why.

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Q MR. FRAWLEY: For practical purposes the Texas Corporation are the only people who can bring gasoline in to the Dominion of Canada, in this particular part of the Dominion of Canada?

A That is right.

Q Whether they bring it from Montana or whether they bring it from Port Arthur, Texas, is a circumstance so far as you are concerned?

A That is a transaction between their own company and their local company.

THE CHAIRMAN: Now he accepts that premise and what is your question?

Q MR. FRAWLEY: You said some moments ago you desired to limit these licenses territorially to the United States, American refinery licenses to the United States, as you do I believe in about 99% of cases, is the proportion to the Canadian refinery?

A I think so.

Q And you would probably add to that---

Q THE CHAIRMAN: When they have a subsidiary in Canada, they have control?

A Quite.

Q And it would not be a wrong thing to suggest to you after crude oil had been discovered in Alberta, that you would think that protection of that crude oil might, the desirability of having that crude oil used, might enter into your consideration?

A When I said for the protection, I did not exactly mean the protection of the Canadian refinery, Mr. Frawley. This is what we have in mind, there is something rather intangible,

it is the thing expressed on the billboards out here along the highway wherein you ask your Canadians to use oil products produced in Alberta.

Q Precisely?

A Yes, it is the thing, that is the thing, that the Canadian business rightfully belongs to the Canadian companies. Now I say that is intangible, and I have no proof of that.

Q No, but you subscribe to that?

A There is only one thing you can really say, where you can tie it down and that is that the Canadian refiner pays 5% duty on the fluid which comes in. Now he actually pays that.

Q Yes?

A The United States refiner who ships into Canada pays no duty on the fluid in the gasoline. Now that is not, probably does not amount to very much money but that is the only thing of a tangible nature that is a difference between the two.

Q You rather subscribe to there being something to this tangible thing of letting the Canadian man develop his own business?

A That is right.

Q Do you not think you are shooting that principle full of holes by permitting the Texas Corporation to export Montana crude into the Province of Alberta?

A Positively not because I am not talking about Canadian products.

Q MAJOR LIPSETT: They cannot bring Montana crude in?

Q MR. FRAWLEY: It is Montana crude treated and refined, refined and treated with lead, but anyway

MR. FRAWLEY: Yes, that is what Mr. Kaley says, that is the first time that was ever brought to my attention .

Q Very slight.

THE CHAIRMAN: You will get an opportunity to cross-examine fully, Mr. Meltabarger. You will just have to make notes in the meantime.

Q MR. FRAWLEY: Well that is something I am very glad to have Mr. Kaley bring to our attention and that I think has escaped the notice of all of us up until now.

THE CHAIRMAN: It is rather a point.

MR. FRAWLEY: Yes. Of course there is a duty on the gasoline you know but no duty on the lead content; in other words the cheapest gasoline there is the same duty as the Sky Chief.

THE CHAIRMAN: How does that duty compare with the duty on the leaded products, the duty on the gasoline?

Q MR. FRAWLEY: You say it is 5% ,?

A That is my understanding, it is 5% on fluids coming into Canada.

Q That is if the Imperial Oil imported a tank car of fluid, they pay 5% duty on its value?

A Anyone.

Q THE CHAIRMAN: And the gasoline duty.

Q MR. FRAWLEY: The gasoline duty is 1 cent per gallon regardless of the quality so long as it has a certain gravity.

THE CHAIRMAN: Is there not a saving there of 4 cents over the fluid.

MR. FRAWLEY: No, perhaps I did not understand, there is a duty of 5% on the value of the fluids, if a car costs $5,000----

THE CHAIRMAN: Oh, 5%.

MR. FRAWLEY: Yes, it is an ad valorem duty.

Q MAJOR LIPSETT: The value of the product per gallon as I understand it is less than a cent and there would only be 5% of that 1 cent would be the duty on the Ethyl coming in but the duty on the refined products would be 1 cent per gallon and that is 20 times as much?

A That is correct, Mr. Commissioner. If you get down to the c.c's of lead in a gallon of gasoline, it is an advantage but I think a very slight one. There is so little involved, 5% of, well it would be 5% of, let us say, of the value of the lead in a gallon of gasoline, it would be a fraction of a mill I would say.

Q MR. FRAWLEY: I do not want to be repititious at all, Mr. Kaley, but I want to put this to you again and I was interested in hearing you say it, the reason you restrict the American refineries, the refineries of the United States of America, was that you desired to let Canadians develop their own business?

A That is one reason.

MR. BLANCHARD: One reason.

Q MR. FRAWLEY: Yes, one reason among two, as the Chairman put to you, and the other one was you wanted to have some supervision?

A Which I would say is the main reason as far as we are concerned.

Q But so long as it is going, I may be a little stupid about

it, so long as it is going into the hands of a licensed distributor, then he is bound to market it properly; I do not see, the Texas Company of Canada is another jobber surely to your company, it is a licensed jobber of leaded products, is it not?

A That is it.

Q Take the Gas and Oil Products or any name you want to mention, the X. Y. Z. company, do not take the Gas and Oil Products because that is a refiner, but the X. Y. Z. company, you look them over and satisfy yourself that they are entitled to a seller's license?.

A Correct.

Q A marketer's license?

A Correct.

Q Now wholesale or retail or whatever it may be, you satisfy yourself about that, then forgetting about it, then why cannot the Standard Oil Company of New Jersey send gasoline directly from its refinery in Illinois right into that man's plant in Calgary, everything would be in order so far as you are concerned, all your requirements would have been met because you had already investigated his standing?

A For this reason, Mr. Frawley, that we might be entirely satisfied to issue a license to somebody and he might be able to, let us suppose, we did not have this restriction and he was buying through the Barnstall Refining Company or some little refining company down in East Texas and we found this dilution, or try as we would, we could not get him to put up warning signs, we could not get him to put our trade mark on the pump, for instance-----

Q Yes.

A Then you see if he violated that agreement we would have every reason to cancel him out.

Q Yes?

A Well that has not been our practice again, as I said earlier this morning. We do not cancel very many licenses but let us suppose we found this dilution and we called it to his attention but we did not get anywhere, then it is our practice to go to the refiner and say "Your jobber is diluting, here are the sample to prove it and we insist that you either control that jobber, stop dilution or substitution or stop supplying him".

Q Now then in the case of the Texas Company of Canada----

Q THE CHAIRMAN: May I just ask there, if the refiner does not do as you say, then you provide in your contract that you can cancel his license?

A Yes.

Q and you cancel his license then?

A Yes.

Q MR. FRAWLEY: Now let me put it to you that the Texas Company of Canada then committed some violation, was a little careless about dilution, where would you go then?

A To the Texas Company of Canada.

Q No, but back of the Texas Company of Canada, because they are marketers, they only have a very few jobbers, if they fell down on you where would you go then?

A Well I think we would go then to the Texas Corporation.

Q You bet you would, you would go straight down to the Sunburst Refinery and we have you then pretty well down to the Sunburst Refinery again, I would think you do not re-

gard, frankly Mr. Kaley, you do not regard the Texas Company of Canada as being so very very separate from the Texas Corporation at Sunburst. However, that is where you join issue with me and I will leave it there. Now I put it to you that the effect of your arrangement, this special arrangement, gives an undue advantage to the Texas Corporation and frankly that is all I am concerned with, I do not regard, it may be important to the Commission, but let me put this to you, I do not regard that the Texas Company of Canada is anything except the marketing department of the Texas Corporation, as the North Star is of the Imperial, and if that is a sound assumption and that is perhaps the best way to put the question to you----

THE CHAIRMAN: And as you say the Bell Company is of the British American.

And the Bell Company is of the British American, if that is a sound assumption, then, do you not think you are giving a very distinct advantage, which almost amounts to discrimination,-without any sinister sense so far as you are concerned,-but a discrimination in favor of the Texas Corporation which rather militates against your suggested ideal of a desire to have Canadian people get the business?

A I will answer that this way, Mr. Frawley, I think the way that the thing has worked out, that you probably are right, that the Texas Company does secure an advantage but the thing that you must not forget is that we were willing to go along and do that for the return which we got in supervision; in other words it gave them an advantage, yes, but only because they were able to give us something, supervision over their outlets here, that we could not get from

other people.

Q I know but you see, I know but you see though, that is the point, they, the Texas Corporation at Sunburst, were able to give you some semblance of supervision, you say that?

A We negotiated our contract with the Texas Corporation, that is true.

Q But let me put this to you, the North Star Oil Company is a large,-we will use them again because they are large, efficient, reputable,-they market in the Province of Alberta?

A Yes.

Q That is all they do in Alberta, supposing they left the Imperial tomorrow and went to New York and made an arrangement, I know they cannot in the face of the facts, but if they could make an arrangement in New York to have their needs supplied from the Sunburst Refinery, do you not think you would be in perfectly good hands?

A That is the same thing that came up a moment ago Mr. Frawley, when I said we have never been up against that. I do not set the policies myself and I do not know what we would do, what they would do, after a discussion of the matter if it was suggested to us. I do not believe the question of a sale by one refinery in the States to another refinery in Canada, in Alberta, for instance, has ever come up.

Q No, it may not?

A And I do not know what we would do.

Q You certainly agree with me in this, that the fear, the fear which you have, that your products would not be properly supervised----

A Would not exist, we would have con-

fidence in the North Star.

Q Yes, but as things now stand, the North Star cannot move a drop of gasoline out of Montana except from the Texas Corporation?

A I would assume that if the North Star wanted to do that thing they would take it up with us and we would give them an answer and as I said before, I do not know what the answer would be; I cannot see anything particularly wrong with that, personally.

Q No, and there is nothing particularly wrong with the North Star going to the Home Oil and getting it there, there is nothing wrong at all?

A I cannot see anything wrong with it.

Q But as things stand now, they cannot do it, you would have to revise your contract?

A We would have to revise the Home Oil Company's contract.

MR. FRAWLEY: Well all right, thank you very much.

THE CHAIRMAN: Now, Mr. Frawley, Mr. Meltabarger has been restraining himself and we will let him ask some questions.

MR. FRAWLEY: Oh yes.

THE CHAIRMAN: You are through with that phase of it?

MR. FRAWLEY: Yes I am.

Q MR. MELTABARGER: If the North Star Oil Company wished to buy a load of gasoline in the United States, is it not a fact that they would first have to go to the Texas Company of Canada, Limited, the licensed Ethyl distributor in Canada?

A That is correct.

Q We then would----

MR. FRAWLEY: Why?

Q MR. MELTABARGER: We would then ask the Ethyl Corporation to issue a license to the North Star Oil Company to market Texaco leaded products in Canada if they did not already have one and the Texas Company of Canada Limited, would sell the North Star Oil Company?

A Yes.

Q In other words, the Texas Company of the United States has nothing to do with it at all. We are licensed jobbers here and we buy from the Texas Company, a Delaware Corporation, and we would be selling the North Star and not the International Refinery?

A That is correct, so far as my knowledge of it is concerned.

Q Mr. Frawley made a distinction a while ago, he said a trucking concern went down to the Home Oil Company in Great Falls and tried to buy some leaded gasoline and they couldn't, but if they had stopped at Sunburst they could have bought it, now is that a fact?

A That is what Mr. Frawley said.

MR. FRAWLEY: No, I say they would have to stop at Calgary and make an arrangement with Mr. Meltabarger and then drive the truck to Sunburst.

A As I told you I know nothing about these truck deliveries. You say these things have happened but I know nothing of it myself.

Q MR. MELTABARGER: I am trying to get at the discrimination; the Texas Company, the Corporation, approached

the Ethyl Corporation some years ago, in 1930, and said "Although we can make gasoline with a high octane without lead, we can make it cheaper if we use lead. Now if you will give us a license we will market leaded gasoline"---

A And we were very glad to get the business.

Q And they wanted that license in Canada too, in which country they have a considerable investment and you issued them the license?

A Yes.

Q And their subsidiary in Canada sells leaded gasoline, is it discrimination then if they sell to one company and do not sell to another, that is just----

A Do you mean is it discriminatory on your part?

Q On anybody's part?

A I do not see how I am competent to answer that.

Q If we have gasoline to sell, the Texas Company of Canada, Limited, and we will sell to anyone who will pay us our price, is there anything discriminatory because we do not sell to some particular one?

A Well now that is a question that I am certainly not competent to answer, Mr. Meltabarger.

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THE CHAIRMAN: You will let us worry about the submission?

A Yes, Sir.

Q MR. MELTABARGER: If the McNeill Company to which Mr. Frawley refers, did not stop in Calgary and ask us to sell that gasoline but went to the Home Oil Company, who had no license because they are not marketing in Canada, is there any discrimination in your estimation exercised?

A Not that I can see.

Q As to the matter of the 5% duty that is paid on lead. You said that the Ethyl Corporation in issuing licenses considered that a Canadian manufacturer or refiner needed some protection or required some protection?

A If I said protection I did not mean protection, Mr. Meltabarger.

Q A right to the Canadian markets, so to speak?

A Generally speaking, yes, Sir.

Q Because of the fact that the Texas Company had invested a considerable amount of money and had used Canadian labor they were part of that market?

A Correct.

Q 5% as is paid on the amount of lead required to make a gallon of gasoline in Calgary amounts to 5% or 3/10ths of a cent per gallon which would be a little better than 5 mills. That is correct. Is that not far more than compensated for, in your estimation, by the 1¢ per gallon difference on the gasoline as shipped into Canada plus the 8% sales tax, as against the 5% on Ethyl fluid,

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but 8% sales tax on the fully manufactured product in which lead, paid for at the same rate as the American manufacturer pays, is also included. In other words, the American manufacturer who ships into Canada pays in addition to the 5% on the lead only, he pays 8% on the fully manufactured product, including the lead, and would that not be more than compensated for by that?

A The duty you pay is higher than the duty the Canadian refiner pays on lead.

Q And the Canadian people derive far greater benefit by importation of a gallon of gasoline than they do from the other product?

A I am not competent to answer, Mr. Meltabarger, whether they derive more benefit or not. Certainly you pay more than the Canadian refiner, when you pay on gasoline and he pays on lead.

Q I think that is all?

Q MR. FRAWLEY: The Big West Oil Company exporting non-leaded gasoline pays the same duty for its exports into Canada as the Texas Company exports leaded gasoline into Canada. 1¢ per gallon on all gasoline, you understand that?

A I understand that any American firms shipping into Canada pays 1¢ a gallon for gasoline.

Q Third structure or anything that is above, I think, 47 gravity. Now, Mr. Kaley, I must confess I do not understand why the North Star Oil Company, a Canadian Corporation, duly licensed to do business all over Canada, cannot go down to New York and ask the Texas Company

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if they would sell them; without the slightest regard to the Texas Company of Canada, gasoline from its Sunburst refinery. Is there any reason why they could not?

A Mr. Meltabarger said he thought the ordinary procedure would be to go to the Texas Company of Canada.

Q Of course it would, but I am simply putting it to you. Could not the North Star Oil Company go and import gasoline as such from the Texas Company in Sunburst if they could make this arrangement?

A So far as the Ethyl Gasoline Corporation is concerned, there is nothing to prevent them making those arrangements.

Q The fact is, they would send them back immediately to their Canadian subsidiary that markets their products?

A I cannot answer that, I do not know.

Q MR. COMMISSIONER LIPSETT: Mr. Kaley, you have a number of licensed jobbers and marketers in Alberta?

A Yes, Sir.

Q And presumably you are satisfied that they are responsible people?

A Yes, Sir.

Q And they have their money invested in Canada and are carrying on a Canadian business?

A Yes.

Q From their point of view, why do you state then that if they want to buy Montana gasoline, they must go to one refiner in Montana?

A I do not say I think..... Well, in fact as I suppose that is the way it does work out. But why should they,

if they want to buy..... Well, I do not know that I know the answer. What they would do if they wanted to buy leaded gasoline would be undoubtedly to go to the Texas Company of Canada if they insisted on getting Montana gasoline.

Q From their point of view, you in effect have given a monopoly to the Texas Company for Montana gasoline?

A At the present time, I think that is actually the way it stands.

Q Now, just take the point of view, from the point of view of the Montana refiner. You have there also given a number of licenses?

A Yes, Sir.

Q Including, I take it, this Home Oil Corporation?

A Yes, Sir.

Q Why do you say in reference to the Alberta business of those refiners, both of whom so far as you are concerned are perfectly satisfactory licensees, why do you say to one of them that "We will give you a monopoly of the export into Alberta and not your competitor." Is there any discrimination in those cases?

A I dislike this word discrimination. But there is a difference. It might appear to the discrimination. Maybe it is discrimination. But for the reason, if I may say so, in the fact that the Texas Company has a supervisory body operating in Canada and the Home Oil Company does not.

Q Just to follow that up. They have, if they appoint a

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licensed jobber here, they have an equal supervisory authority so far as your company is concerned.

A We are not sure that they would practice it, Mr. Commissioner. In other words, the reason I made that statement a while ago, should we or should we not recognize any difference between the Montana refiner and the Texas refiner, from our point of view, looking at the thing from New York? I do believe that your Montana refiner being close would be able to come up and look over the outlets of the jobber to whom he sold and he would exercise probably certain supervision. But should we treat him any differently than the Texas refiner who would want to ship a tank car in and we know very well he would never get up here to supervise the product.

Q He could only ship a tank car in to one of your licensees?

A That is correct.

Q Whom you have trusted to give this supervision and in fact given them this license so that they will exercise this supervision?

A I do not believe I got the last part of your question.

Q You are just relying for supervision.....?

A Primarily on the refiner.

Q But you are also giving a license to jobbers because they are the people that are in contact with the dealer and the distributor?

A That is correct.

Q And presumably on that system you have arranged for supervision right into the hands of the public?

A That is right.

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Q Such as you consider necessary. There seem to me to be two questions involved. One whether it is right, whether Montana goods should come into this province at all, which is a Dominion question?

A Yes.

Q And the second is, if it is allowed to come in, should there not be free competition as between one Montana refiner and another, and not a monopoly conferred by your company on the one refiner as against all others, such as those twelve you have refused licenses to?

A Well, I cannot answer that, Mr. Commissioner. The facts as they exist today, the Texas Company has a very definite edge, shall we call it, over every other Montana refiner. That exists. I cannot deny it. But I say that we have discouraged, and as a matter of fact denied shipments coming from refiners in the States, for the reasons I have given. But whether we should view the Montana refiner, who might have some supervision up here, differently than we would the Texas refiner, I do not know.

Q THE CHAIRMAN: I suppose in the net result you say that there is no discrimination because all of those refiners who wish to sell through jobbers in Canada and set up their own subsidiary companies in Canada, and if they play their part in the life of Canadian industry, then you recognize them as you do this subsidiary?

A That is correct, Sir.

Q It cannot be said that there is discrimination in favor of the Texas Company refinery just so long as other refineries

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in the United States who do the same thing will get the same treatment?

A That is correct. And the reason the Texas Company has an edge over the rest is because they do have a supervisory body up here.

Q You say that when they cross that international line you want closer control than the American refiner would have over the Canadian jobber, even if he be a licensee of yours?

A That is exactly it.

Q MR. COMMISSIONER LIPSETT: Does it work out altogether that way, Mr. Kaley? You have complete supervision in Montana over the Home refinery yourselves and their product?

A Yes, Sir.

Q If that product is shipped to a licensee of yours in Canada, so far as the product is concerned, it comes into the hands of your licensee, there can be no dilution or anything else?

A No, Sir.

Q It is entirely under your control and supervision?

A Yes, Sir. The supervision we have from our license, which we do not really feel is our primary means of control. That primarily is through the refiner. We have a lot more faith in the refiner to correct anything that might happen than we do in the jobber.

Q Haven't you complete control of that with the Home Oil just as you would have with the Texas Company, the International?

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A I think you have a point there, Mr. Commissioner. If it would be all the same, let us change and not talk about the Home Oil Company, but let us talk about the Hurricane Petroleum Company in Texas.

Q Yes?

A That is a difference in the two situations. Now if you would put your question relative to the Hurricane Petroleum Company in Texas, you can see that they would have no jurisdiction or supervision over a jobber up here in any way.

Q Let us follow that up, because again you have complete supervision over the Hurricane Company?

A Yes, Sir.

Q And their product?

A Yes, Sir.

Q There cannot be any doubt that is the product that will reach the Canadian boundary?

A Yes, Sir.

Q And that comes delivered from the Hurricane refinery to one of your licensed jobbers in Canada?

A Yes, Sir.

Q In what way, so far as your company is concerned, is your position worse because it is few of your licensees that are doing the refining and shipping and distributing in Canada that you are in the case of the Texas Company where there is one refiner sending to a subsidiary it is true, but to an independent entity in Canada?

A The Texas Company has a very definite interest in its customers and in its brand and in all things that go with

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the marketing of petroleum products.

Q Does not that exist exactly in the other case just the same way? Is not your refiner in the States, in Texas, interested in maintaining his brand; and is not your licensee in Canada, your independent licensee who is handling that brand, has he not the same interests as far as you are concerned in getting the quality?

A My personal opinion is he would have no, absolutely no interest in the gasoline whatever.

Q THE CHAIRMAN: Getting rid of so many tank cars of gasoline?

A That is all he is interested in, and that is all.

Q MR. COMMISSIONER LIPSETT: How would he keep his business with the Canadian jobber if he did not send him the quality?

A He would probably sell him at a very low price. So far as quality is concerned, the quality might be there when it would go out, but that company in Texas would have no interest beyond getting his money for a tank car of gasoline.

Q Surely your refiner in Texas would not just want to sell one car of gasoline. He would want to establish a business and good will, would he not?

A I doubt if he would be interested in establishing any good will. He would be very apt to continue shipping if his price was low enough and it would be very apt in the case of many of the Texas refineries to be low enough.

Q Might that not be just a great advantage to the Canadian public if in that way real compeititon was created and

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the price at which the refined product was delivered to this province would be lessened?

A That is a question that I would not be competent to answer, Mr. Commissioner.

Q Is not the policy being adopted at present by you to give one Montana refinery, or one American refinery if you like, wherever it is situated, a complete monopoly so far as you can of the marketing of American gasoline in this province?

A I am sorry, I do not quite catch your point.

Q Is not the result of your policy in conferring a license for export into Alberta to one company, is not the result of that to give a complete monopoly to that one company of the American gasoline coming into this province?

Q THE CHAIRMAN: Until some other refiner.....?

A Until some other refiner could do the same thing. Any refiner we have would have the right to do that same thing. I do not think it should be looked on as monopolistic. It is a fact that they are the only ones who can do it now.

Q MR. COMMISSIONER LIPSETT: Did you point out to those twelve people or whatever it is that you refused a license to that they would meet your conditions if they had a subsidiary in Canada?

A No, Sir, I am afraid we did not. We merely said we would not allow them to ship.

Q If it is to be a subsidiary, would you give a license to the Home Company if they formed a small subsidiary in Canada to handle it?

A If they approached us, I feel quite sure we would.

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Q You would give it to them, to a subsidiary company who applied for a license, but you would not give that business to one of your present licensees?

A I am not sure.....

Q In Alberta?

A I am not sure but what we might, and I am only speaking personally now because our policies are decided upon by many of us. Considering that if, let us say, the Home Oil Company had distribution in Canada under their brand, and through a reputable jobber, not affiliated with them in any way, I think we might give consideration to some sort of a change there to permit the Home Oil Company to ship across, even though this jobber was not a subsidiary. I cannot say how all of our people would look upon that.

Q THE CHAIRMAN: It has not come up?

A It has not come up, but by doing that we would be discriminatory between the Home Oil Company, just because they are in Great Falls as against the Barnsdell Oil Company in Texas, and they have a very logical complaint to us if they come to us and say "Why can't we ship into Canada, just because we are an Oklahoma refiner as against the Home Oil Company in Montana." And the only thing we can say would be the Home Oil is closer and we think they can supervise it a little better.

Q MR. COMMISSIONER LIPSETT: Take both cases. I do not think there is very much difference between them. But let us take the Home case and you say if he establishes distribution in Alberta then you might consider giving him a license. How could he have distribution until you do give him a license?

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I mean, it is just going around in a circle?

A That is true. By distributing his other products, I suppose, or at least setting the thing up so that we could see what he would have.

Q If you are avoiding a monopoly, would not the thing be to say instead of refusing them, would not the thing be to say to him if you are prepared to distribute your products in Alberta and have a company, a subsidiary company to do so, then we will at once give you a license?

A I think that would be proper.

Q You are really preventing them from ever getting established because they cannot begin to distribute until they get a license?

A It would look that way. I can assure you there is no intention of doing that.

Q I am putting it to you because I think probably it has not perhaps been fully considered?

A I think that is correct.

Q And leaving out the question of whether Montana products should come in at all - and I suppose it is really Montana - leaving that out of the question, there does seem to be some necessity for consideration as to whether the present factors that exist might not really be creating a monopoly of Montana products for one organization?

A I think certainly one would have a right to an opinion along those lines from present indications.

Q It probably really has never come up?

A I do not think that ever struck us just that way before.

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Q MR. FRAWLEY: I just have one more way of putting this to you, in view of the mechanics of the method in which the two Texas jobbers are now being supplied, the Artic Company and the Lion, or in view of the way I think they are supplied, would it not only be necessary for the Home Oil Company to come into Alberta to organize an Alberta company and open an office in Coutts and go to the two jobbers that the Texas Company now has, the Artic and the Lion, and make a similar deal with them that Mr. Meltabarger has dealt with them, and not open a bulk plant at all, and for the Artic truck and the Lion truck to go to Sunburst, Montana and they would have met your conditions?

A You are putting that on an assumption that I do not know anything about, as I say. As far as these trucks going into the Texas Company's plant, we do not know anything about that. If it happens that it is a direct violation of the contract between the International and ourselves, that is a thing for me to take up with the Texas Company.

Q Perhaps that is a better way to put it, is, if you go so far as to say it is a violation, then there is nothing in my suggestion. I was assuming that you permit what is now being paracticed, the mechanics of it. Then would not the Home Oil Company meet the suggestion you put to the Chairman a moment ago, that you pay considerable attention to the fact that they have opened a Canadian office and established a Canadian subsidiary? If the Home Oil Company wanted to take these two jobbers away from the Texas Company

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I put it to you they could do it by coming into Alberta and forming a company and establish a separate legal entity and just put an office up in Calgary or i in Coutts?

A That would make two wrongs where one exists now.

THE CHAIRMAN: I did not understand the Witness to go that far. He expects it to be a very real Canadian company exercising very real supervision?

A That is correct, Sir.

Q MR. FRAWLEY: What supervision does the Texas Company of Canada exercise, or would you expect them to exercise over a jobbing business that is already licensed such as the Artic Company or the Lion Company?

A I would expect the Texas Company of Canada to periodically check the fluid and the gasolines supplied by them and sold by their jobbers. I would expect them to check on the warning sign, to see that those are placed on the pumps. I would expect them to see that the Ethyl trademark occurs on every pump.

Q Yes?

A And I would expect them to work with our people in the promotion of these products.

Q Do not forget you have the Artic Company and the Lion Company covenanted to do these very same things. You have just got duplication there. The Artic Company is a licensed jobber?

A That is correct.

Q That in turn simply distributes gasoline to bulk stations. You expect them to do all these things you have just listed?

A Absolutely right.

Q Why couldn't you have the Home Oil Company, a licensed refiner in Montana, having set up a Canadian legal entity, to do the same thing with respect to these two contracts only?

A While we are assuming things, Mr. Frawley, let us assume that the Artic Oil Company does not do all those things. Then of course we have the alternative of cancelling the license.

Q Yes?

A We might do that and absolutely shut them off.

Q Yes?

A But as I have said a number of times we do not choose to cancel licenses. We do not like to do it and we do not do it if there is any way of avoiding it. But the thing we can do if they do not operate satisfactorily and say from the point of view of maintaining the standard and maintaining the health regulations, we can go to their refiner you see and insist through the refiner that that be done.

Q THE CHAIRMAN: Generally speaking, your reliance is in your refiner who has a bigger stake involved?

A Yes, Sir.

Q MR. COMMISSIONER LIPSETT: Would that do away with the necessity of licensing jobbers at all, because you already told us, Mr. Kaley, that the justification and the reason for the jobbers' license was for the purpose of insuring warning notices being put on the pumps and avoiding dilution?

A It is just another means of securing these things that we want.

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In this way, we could of course I suppose forget about our jobbers' licenses and put the whole burden on the refiner. On the other hand, we pretty much look to the refiner to enforce the terms of the license but still we have an opportunity as a last resort.....

Q THE CHAIRMAN: Just as some day you may go a step further and license dealers, if you want a further check?

A That would never come about, I am sure. There are too many dealers for that.

Q MR. FRAWLEY: One of the things that the Commission would probably like to get your view on is the question of Government regulation or control?

THE CHAIRMAN: Well, Mr. Meltabarger, do you wish to ask a question?

MR. MELTABARGER: I want to ask Mr. Kaley this question. Would the fact that the Texas Company of Canada Limited, a subsidiary of the Texas Company, a Delaware corporation, is also marketing the same product in Canada as the Lion Oil and the Artic Oil, would that create a greater interest on our part to see that the products they marketed under our brand or otherwise were presented to the public undiluted and properly, for the prestige and good name and good will that we have, than if we were not marketing here ourselves and just interested in the sale of a tank car of gasoline?

A That is a most important point and absolutely correct, Mr. Meltabarger, and that is the reason we have confidence in your company.

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Q MR. COMMISSIONER LIPSETT: You think that confidence justifies giving them a complete monopoly of the sale of all products produced in Montana and sold in this province?

A We would have the same confidence in anyone of our United States refiners who had entered Canada on the same basis.

Q You think it makes a difference where you have a refiner in Montana in whom you have complete confidence and a licensed jobber in Alberta in whom you also have complete confidence?

MR. FRAWLEY: The North Star Oil Company, for instance?

A That, as I brought up, is a question that has never come up. We looked on them as refiners. I do not know what we will decide to do.

Q MR. COMMISSIONER LIPSETT: Perhaps you will give it some further consideration?

A I am sure we will, Mr. Commissioner.

Q On the question of monopoly, it does seem to me to have some significance and importance. But as I said before it is entirely distinct from the question as to whether Montana products should come in at all into this province under existing conditions. That is a different question altogether?

A I am certain there have been some things brought out in this Investigation that we have learned.

Q I think we have all got different angles and view-points as a result of it?

A That is right.

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Q MR. FRAWLEY: Mr. Kaley, there are just a few more things I want to clean up with you, you have made it clear now a couple of times that there is not, that all applications for licenses have been, refiner's licenses have been granted?

A Yes.

Q In this province?

A Yes.

Q The Bell Refining Company made application some years ago, in 1934, when they were operating as a separate entity and not as a subsidiary of the British American Oil Company, and they were refused?

A I am not familiar with that.

Q I have nothing much to show you but a copy of a letter.

A Yes, they were apparently refused at that time. I know they have a license now.

Q They have a license and just to complete the record, the Bell Refining Company was given a license on the 22nd of November, 1935. Now there is a refinery at Lethbridge, it happens to be operated by this man to whom that letter was addressed, Mr. Huff, who was then the Manager of the Bell Refining Company?

A Yes.

Q It is called the Huff Refining Company at Lethbridge, can you tell us, do you know whether they have applied for or obtained an Ethyl license?

A They have not obtained one. I do not know whether they have ever applied for one or not.

Q I was not particularly clear myself whether they had?

A I would know if we had issued one to them but if they had

written in making application, I would very likely not know that.

Q Can you tell us offhand the date of the Lion Oil Company's license?

A I cannot tell you the date but I know it is since January.

Q Of this year?

A Of this year and the reason for that is we prepared our statement in January when we had originally expected to be before this Commission in February.

Q Yes?

A And the license has been issued since then because we do not have it listed;

Q The Gas & Oil Products license is dated the first of March, 1938, which appears on the Exhibit "497" (c) and (d).

THE CHAIRMAN: What date?

Q MR. FRAWLEY: The first of March, 1938. They have had that license for some considerable time and they are only now about in the middle of the construction of their plant and their Ethyl mixing plant?

A Yes. I attempted to find out about that before I left and it is my understanding they changed their mind about where they intended to locate their installation.

Q The Anglo ~~Canadian~~ Company's license is dated the 17th of October, 1938, was there any difficulty there at all with respect to the granting of that license, that is for the Brandon Refinery?

A Not so far as I know.

Q Now, the standard form of license, perhaps you can tell me without looking at it too closely, requires that the

fluid be purchased in, when purchased in drums at all, in drums of 55 U. S. gallons?

A Yes.

Q Or what, 44 ---

A 44 Imperial gallons.

Q Now the company does own ---

MAJOR LIPSETT: Mr. Kaley said that the drums were labelled 55 gallons but in fact contained 50 gallons.

A No, there was a statement, Mr. Commissioner, that it is in our contract that the drums shall contain not less than 50 gallons but actually they are 55 gallon drums.

MAJOR LIPSETT: Oh, I see.

Q MR. FRAWLEY: 55 U. S. Gallons?

A That is correct.

Q Which is you say, how many Imperial?

A 44 Imperial gallons.

Q Now, your company owns drums of smaller size, as I understand?

A We have a few drums of smaller size which are used but rarely, for aviation fluid.

Q Well for aviation fluid, it is the same fluid?

A No.

Q No, not the same fluid?

A No, sir.

Q Now is it more dangerous?

A For aviation engines the fluid has a higher bromin content and no, I will say this, a higher ethylene dibromide content and no ethylene dichloride; we found from experimentation that ethylene dichloride did not work very well in aeroplanes so it is an entirely different fluid.

Q The original tetraethyl lead can be quite satisfactorily distributed in the 25 gallon drums from the standpoint of the danger?

A You mean the ordinary, what we shall term "automobile fluid"?

Q Yes?

A We would not have the drums in the first place. It would be too expensive for us to fill small drums and the great reason against it is that we do not wish to raise the number of packages in which fluid is shipped. For that reason we have not shipped fluid, that is automobile fluid, in anything smaller than 55 gallon drums.

Q Yes; well now applying that to a very limited operation which is carried on in this province, I am told, or was told, at one time, that it worked out as quite, at quite a disadvantage for the small refiner to have to do his mixing with 55 gallon drums, by reason of the fact that he had to use it all once he opened it and it required keeping a batch, a much larger batch of mixing stock, of base stock, than he ordinarily would desire to use and that it generally increased his investment beyond what he desired to invest, was that a meritorious criticism of the use of the 55 gallon drums?

A Well I am sure I cannot verify that or deny it, Mr. Frawley. I do not know the size, I have never seen your Turner Valley field or refineries. I do know but I believe that we have licensees who are just about as small as it is possible to have, I mean as small from the refinery capacity ---

Q Yes, that is interesting ---

A And may I finish that, Mr. Frawley, please?

Q Yes?

A And they have fitted their scheme of operation to use 55 gallon drums.

Q Well you say they have fitted their operation, you have, I suppose, some licensees who have a throughput of 4 to 500 barrels a day, and that is the kind of plant I am thinking about?

A That is pretty small.

Q Yes, very small.

A We have some small ones, I cannot tell you what their throughput is though.

Q As a matter of fact that is the Lion Company, which you have licensed and only operating part of the year, closed down during the severe winter months, do you not think that four to five hundred barrels per day throughput, a plant of that size would find it more valuable, just looking at it from his own mixing standpoint, to have lead in 25 barrel lots, 25 gallon drum lots, I mean?

A Probably it would be more convenient for him.

Q Now, if he was prepared to stand whatever extra expense was involved from his standpoint, even to paying you something, if you found the additional loading or filling, costs higher, why would you not meet his requirements and sell it to him in those quantities?

A You would be asking us or he would be asking us to change our entire policy, to change our plant setup, to purchase

drums, and the great point, to waive the fact that small containers, which in our estimation, are just as dangerous in transportation as large containers, in order to make things more convenient for him; now as far as overcharging, we are very proud of the statement which we are able to make that we sell to every customer we have at the same price and it is my opinion that we would not want to charge the small refiner any more than we charged anybody else, so that it is our policy, which he would be asking us to depart from for his convenience, and I do not think, well I know we would not do it.

Q I simply put the two aspects of the situation to you. I am a refiner in a very small way in the Province of Alberta, desirous of getting into the gasoline business; now I am simply not in the gasoline business if I can only make third structure gasoline, am I, and I have to go to the Ethyl Corporation, as it appears plainly from this evidence, I have to go to the Ethyl Corporation to get into the gasoline business, you follow me?

A Yes.

Q Well, it looks as though the restrictions which you impose, I can only call them "restrictions", you do not call them such, the conditions which you impose, which are perfectly all right for the large refinery, just good, sensible conditions but to me they are practically impossible, the effect of your restrictions is to put me out of the gasoline business because I must have your products to go into the gasoline business, now I certainly

put that to you as a problem which may face the small, very small Alberta refiner and I put it to you that ways and means should be devised, - consistent always with common sense, - to permit that small, very small refiner to go into the gasoline business, now what do you say about that?

A I would say off hand that your position there would be to some extent just your hard luck because we would not be enough interested in your business in the first place to enter into an agreement with you whereby we would lose money and secondly where we might waive any safety regulations which we have; in other words, we are more interested in the safety feature and the safe handling and transportation of our products than we are in the business which we could get from you.

Q Now that is true but the only reason I put any part of this to you at all, you can say: "We are in business for ourselves," and that is a perfectly legitimate proposition, but you must always bear in mind the monopolistic features, it is just a coincidence perhaps, that your people, Mr. Kettering and Mr. Midgley discovered tetraethyl lead, and the patents are yours and they belong to you, and it so happens nobody can use it without a license ---

MR. BLANCHARD: The patent would be a monopoly?

Q MR. FRAWLEY: All right, put it that way and nothing wrong with it, but I say that it puts obligations upon you, you might say, which I suggest to you it puts obligations upon you as it were, whereby you

must be very, very careful to see that no evil effects come out of the fact that you own these patents and this monopoly and I ask you whether or not you do not feel you have a duty, I will put it that way, it is not a word often used in business commercially, but I put it to you, if your Corporation does not feel it has a duty to see that the small refiner is not kept out of the gasoline business and that the business gravitates entirely to the larger companies by reason of those conditions?

A I think that that is very, very fairly put, Mr. Frawley, and I say to you that we have recognized our responsibility and that we have endeavored to fit our business in every way that we can so as not to keep any refiner from using lead whether he be large or small; now the small refiner does present a problem which we have tangled with for a long, long time. We have deliberated over it. We have done everything we can but the point having to do with safety control, - let us forget dollars and cents for the moment, - we just go in there and we consider that we are handling our products in the safest manner that we can and that is the only thing that we are content with and that is to do the best job we can on safety and I would like to say just a little further on that, our Medical Department, headed by Dr. Kehoe of Cincinnati, is a department which is not concerned in any way in the money we make, in our sales policy or anything else, the only thing they are concerned with is the health of the people who make the products, the people who ship the products,

the people who mix the products and in the last analysis the common good of the treated product, you see, and that is the one department in our company whose word is law with us.

Q Then that brings me back to what I said to you yesterday, does Dr. Kehoe advise you against, definitely and unreservedly against establishing some sort of bulk plant say, in the Province of Alberta?

A I put that very question to, let me get that again ---

Q I say, does your Medical Department unreservedly forbid you to establish or advise you not to establish bulk plants?

A Warehouses?

Q A warehouse plan of some sort say in the Province of Alberta or somewhere near to it?

A That is an entirely different question. I know that our medical doctor would frown on that but that again becomes a business proposition that we would want to consider. I thought you were going to speak about the small drums again.

THE CHAIRMAN: Yes.

Q MR. FRAWLEY: To follow that up, there are two things, the sending it in small drums from New York and secondly having some sort of bulk warehouse or bulk tank farm in Alberta, from which supplies in large or small quantities could be acquired; now there are two angles to this, in a way, to help these quite small Alberta refineries, and what do you say about it?

A Well I know, as I said before, that Dr. Kehoe would frown on that. He might not even approve of it, I think probably he would not.

Q Of which one?

A Of the warehouses.

Q Yes.

A As well as everything I have said before on containers, sealed cars and so on, for handling of the concentrated fluid is a hazard, it is always a hazard when you take drums out of a car, when you take them off a steamboat or something like that. Now you would be duplicating every handling if you were warehousing fluid, we will say in Calgary, you would ship it in, you would unload it, you would store it, you would take it out of the warehouse again and take it back to the mixing plant, you see. I do not think Dr. Kehoe would approve of that and the second thing, that would cost a lot of money which we would want to take into consideration.

Q Yes and of course some of that cost, I know you pride yourselves on selling at the same price to all but frankly would there be any great harm or anything improper in selling a man who wants to take out a small quantity, charging him a greater price than if he took it in tank cars, with an extra cost for packaging these smaller quantities if necessary?

A Well we would not want to do it. As I say we are proud of that statement and we would not want to charge any company any more than we charge anybody else.

Q Now I think ----

Q THE CHAIRMAN: Why is there greater danger in handling a 25 gallon, Imperial gallon drum, than a 44 one?

A You have to handle more of them.

Q And of course that happens, whatever your package may be, the more business you handle the more packages you have to handle, you are not trying to cut down the volume of your business?

A No, sir.

Q So to speak, in order to be safe?

A That is correct. You have more exposures of little drums. You have more packages to ship. When you open a 6,000 gallon tank car you really never open it and there is never an exposure, it is tapped, it is a vacuum system and it is drawn from the car and the operator is never exposed but when you get in the drums you have one exposure for each 55 gallon drum, possible exposure, I would say, but you also would have one exposure for a 25 gallon drum with the other idea.

Q MAJOR LIPSETT: Take the loading of the drum, Mr. Kaley, we might take it in steps, take the loading at your plant of a 25-gallon drum, is there any more risk in loading that particular drum than there is in loading a 55?

A I do not think so. I do not believe there is any more risk in loading it.

Q Then, coming to the transportation of it, I presume if you can get 16, 55 gallon drums, accepted as a carload,

I suppose they would take as a minimum double that quantity of 25 gallon drums?

A Roughly speaking, yes. They would have to have, of course, the weight of 16 drums, and they would have more than that on the 25 gallon drums.

Q Yes,

A Because they would have --

Q They might get less than half of the extra gallonage?

A You would have some weight of the drums.

Q Yes, and I was just trying to figure it out while Mr. Frawley was putting it to you, this 55 gallon drum gives you 130,000 cubic centimeters of fluid?

A That is correct.

Q And on the approximate maximum of 3. c. c. 's to the gallon?

A Yes.

Q That would mean that 1/3rd of that 130,000, or approximately 43,000, would have to be refined at this end in one operation?

A That is correct.

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H. W. Kaley.

MR. BLANCHARD: In a tank car?

Q MR. COMMISSIONER LIPSETT: No, in drums?

A In drums.

Q That would mean in one operation you would have to handle approximately 1240 barrels?

A Yes, Sir.

Q That is if he was making Ethyl but if he was making Imperial, where it is less than 1 C. C. to the gallon he would have to handle approximately 130,000 gallons?

A That is correct.

Q At one operation?

A Yes, Sir.

Q Or approximately, as I make it, about 3,700 barrels?

A Yes, Sir.

Q Now, for a small refinery that means that he would have to handle, in one of those 300 or 400 barrel refineries, it means he would have to handle at one operation about up to two weeks' consumption?

A Your smaller figure, Mr. Commissioner, I do not believe would hold, for this reason. If he was a small refiner he would undoubtedly have what we call a skimming plant. That is the first step in refining. If he had just a skimming plant he would require the maximum or almost the maximum amount of lead. So your figures relative to 1 C. C. of fluid per gallon would hardly apply with any small refiner.

Q He would get into nearer 3 C. C.'s?

A Yes, Sir. He would have to have, if he were that small, he would, if he would be a skimming plant - a refiner never puts in a cracking plant by itself.

Q That might mean a basis of 1250 barrels?

A That is the figure that would be more correct.

Q And in the very small refinery that would mean practically a week's operation would have to be done in one day?

A Yes.

Q Does not that practically put him out of the market as against the larger concerns, on your present set-up?

A Well, of course, I am not possibly competent to answer that. But I do not think a week's supply of gasoline is very much of an inventory.

Q What I was thinking of more was from the point of view that he would only be working one day in the week. He would have to have a capacity to do not his 200 barrels a day, but he would have to have a capacity to do in one day 1200 or 1300 barrels?

A Not necessarily. He could have his stock in his tanks, and when he arrived at the proper amount of stock, make his blend, and then be filling that tank.

Q That would mean doing that operation every seventh day instead of every day continuously?

A Well, blending the fluid with gasoline is not a continuous operation. All our refineries mix at periodic intervals, you see.

Q I was rather putting it to you, you see from the business point of view, but on the other hand I was putting it rather to you for consideration that he would have to get a product that is universally needed and that it does, perhaps, impose some obligation or some sort of duty to the smaller man to, perhaps, do something to accommodate him?

A That is absolutely correct, Mr. Commissioner, and we

appreciate that. We have discussed it among ourselves and we appreciate our responsibility in that regard. But when you get down to a certain point wherein you increase your possible hazard so much for the convenience of these very, very small fellows it is a case of us waiving our precautionary measures in favour of this little fellow, or shall we simply say "We would rather stand by our minimum precautionary measures and it is just too bad." That is all.

Q I know there must be-----

A There comes that line. But we do appreciate our responsibility.

Q Would it really be so serious a matter if you cut that down a bit lower where it would be more within the reach of the type of small operators that we have in this Province. He may grow larger in time?

A Well, I will say this, Mr. Commissioner, that we have and will continue to give it consideration. I mean it is not a problem we have lightly discarded. We will continue to think about it. Whether we can or whether we cannot do anything will depend on what we are able to figure out.

Q It would not, I take it, it would be a comparatively small percentage, a very small percentage, perhaps, of your total business, but it does avoid the possibility of, I won't say criticism, but the feeling that the smaller man has not got to the place where he can begin to operate?

A The difference as far as dollars and cents probably would mean nothing to us but it would mean a whole lot to the little fellow.

Q That is it. It is something like a Bank taking a deposit of $5.00, which means nothing to them, but it is quite a

convenience for someone who wants to put $5.00 in a safe place?

A Yes, sir.

Q If you are in the whole business it certainly would be a very decent gesture for the small man if it was possible in some way to meet that necessity on their part, which seems to be real?

A I assure you I will take the matter up again with our people.

Q I would be very glad personally if you would and if it would be possible for Mr. Blanchard to let us know whether anything can be done in that direction?

A I will be glad to do that.

Q Because we have a feeling that if it could be done there is nothing in the nature of a monopoly in this industry in this Province and a great deal of criticism that might otherwise be levelled at the industry would disappear. Our whole idea is to try and see if we can arrive at something fair to everybody. If it would be possible to do something in that direction I certainly would think it would be very much appreciated?

A We most certainly will.

Q Thank you very much.

Q MR. FRAWLEY: I want to bring a special condition to your attention. In the distributor Exhibits, distributor agreements, which were all put in as one Exhibit and of which I have not got the number. It is "505" I think. But let us not stop to find it now. Mr. Weston just called my attention to the fact that the Maple Leaf Petroleums Limited is in a special category along with one other company, the Signal Company, which

does not in point of fact operate in this Province but has a right to. What is, in a word, the special situation with respect to Maple Leaf Petroleums Limited, Calgary?

A May I see that?

Q Yes, there is a special clause there. It might help if I put the facts to you about the Maple Leaf Company in a word. They are not now refining. They at one time refined. They might have or might not have had a refining licence at that time. They have now discontinued their refining operations and partly dismantled their refinery at Coutts and are now a wholly owned Imperial marketing subsidiary?

A Yes.

Q Those are the facts of the Maple Leaf operations. By what right, and that really is my question after all, by what right do they sell and market Maple Leaf Ethyl, whereas in fact it is purchased from the Imperial Refinery?

A This agreement is dated April 16th, 1937. I do not recall personally whether the Maple Leaf has ever had a refiner's licence. May I consult with Mr. Weston on that?

MR. WESTON: Yes, they had for "Q" brand only.

MR. FRAWLEY: "Q" brand only when they were refining at Coutts.

A Then I should say we looked upon the Maple Leaf as a refiner and in the absence of a refiner's licence -- is that existing to-day?

MR. WESTON: As far as I know.

A Are you actually blending?

MR. WESTON: No.

MR. FRAWLEY: No, just a jobber's licence now.

A They were blending?

MR. WESTON: Yes.

A I would say the reason for this Ethyl licence is this. The Maple Leaf were blending their own "Q" gasoline but they no doubt had tank car customers to whom they desired to sell. Now, the standard form of jobber's licence prohibits a jobber purchasing by tank car or re-selling by tank car. That would make him a broker. So we in the Maple Leaf licence-----

Q MR. FRAWLEY: Would you mind restating that?

A The standard form of licence prohibits a jobber from buying in tank car and re-selling in tank car.

Q A jobber's licence?

A A jobber's licence.

Q That is from the Ethyl Company?

A Yes.

Q From buying in tank car and selling in tank car?

A Yes, Sir.

MR. BLANCHARD: It must be less than tank car lots.

A I shall read this to you.

Q MR. FRAWLEY: Take one that I have in mind, the Great West Distributors?

A I will read from the standard form.

Q Yes?

A Clause (a) "Licence, (a)

" Licensor hereby licenses Licensee to sell and "deliver in the territory of the Dominion of "Canada mentioned on the reverse side of this "sheet, and not elsewhere, the improved motor fuel, "defined in the aforesaid patents, in quantities

"less than tank car lots only, and only to users "and consumers thereof or to retail dealers for "delivery directly by said dealers to users and "consumers thereof, on the condition, however, "that the Licensee shall have purchased said "improved motor fuel from a manufacturer holding "a license from the Licensor under said patents."

Now, going back to the special clause in the Maple Leaf licence, inasmuch as the Maple Leaf had a refiner's licence to manufacture and market "Q" gasoline but probably were not in a position to manufacture Ethyl gasoline, we have amended that clause in their licence to read as follows: It is the same number, clause 1,

" The licensor hereby licenses Licensee to "sell and deliver in the territory of the Dominion "of Canada mentioned on the reverse side of this "sheet, and not elsewhere, improved motor fuel "defined in the aforesaid patents, to jobbers in "any quantity who hold a license from licensor "to sell said improved motor fuel, and in any "quantity to actual users and consumers thereof, "or in quantities less than tank car lots to "retail dealers for delivery directly by said "dealers to users and consumers thereof."

Now, I should say that if the Maple Leaf were in a position to manufacture their own Ethyl gasoline there would be no such jobber's licence in existence, with such an exception.

Q Yes, but, Mr. Kaley, if they are not a refiner at all except in name, if they have no refining facilities.

If they have, as we understand the fact is, virtually dismantled their refinery at Coutts, is it not pretty arbitrary to call them a refiner at all. They are just a jobber?

A Well, we get back to the same thing.

Q But more concretely here because this is an older corporation with a refinery down in Coutts, which, as I understand, they have virtually dismantled because the Coutts operation was proved to be bad, as far as Alberta refineries are concerned, both the B. A. and the Imperial have pulled out of that territory as refiners. But assume these basic facts to start with. I ask you to regard the Maple Leaf Petroleums Limited as being what they are, marketers of gasoline?

A Does the Maple Leaf Petroleums Limited exist as a corporate entity?

Q It certainly does, and, indeed, the other company, the Maple Leaf Refining Company, does not now exist.

MR. JAMIESON: It is in the process of voluntary liquidation and has been since 1931. But it has not been struck off the register. It sold all its assets. It is a name only.

Q MR. FRAWLEY: Let us say the Maple Leaf Refining Company does not any longer exist. The Maple Leaf Petroleums Limited is a marketing company. Take that as the starting point.

THE CHAIRMAN: Who is the licence to?

MR. FRAWLEY: The Maple Leaf Petroleums Limited.

A My only answer to that is it may have been that we have been slow to, perhaps, retract the refiner's licence if

these people have passed out of the refining business.

Q Yes. You see, I do not want to be unfair and I do not want to put you in an embarrassing position. You have been exceedingly frank in discussing these things with us. But there is a possibility of giving certain companies the prestige of the Ethyl name label, that I for one give a great deal of importance to, and you are denying it to others. Is this the fact?

A You are not taking into consideration the manner in which these companies, the Bell and the Maple Leaf, secured those licences in the first place.

Q Yes, but you cannot perpetuate a wrong by simply saying "We did something last year that had justification and that justifies it for 1939." I am asking you to take things as they exist?

A You are asking us to take away from these people the right to market under their own brand name because they have not a refinery?

Q I am calling to your attention what appears to be an unfair situation, using the word in its wide sense and nothing sinister at all. The most you can be accused of is being a little bit more or less careless in following up the changes in the situation from time to time and, frankly, I think you might be fairly accused of that, and that you might look at the Maple Leaf picture, taking that as an example, and say - I mean your company and not yourself, that this is just a jobber. You refused the Gas & Oil Products, a jobber, to sell their gasoline as 99 Ethyl. You flatly refused that, I am told, sometime ago. Yet you permit another company in exactly the same

situation as them to sell Maple Leaf Ethyl.

MR. BLANCHARD: It is not exactly the same situation because these companies when they had a refiner's licence established a brand, and you are asking the Ethyl Corporation to take that waway from them.

MR. FRAWLEY: Mr. Kaley is making the same answer to me, Mr. Blanchard, and I am simply saying "You have not kept up with the very serious changes in the facts." That is my suggestion. Well, at least you see the suggestion I am making to you.

A That is your statement.

Q I will accept the situation that when you originally did business with the Maple Leaf Refining Company - well, I do not know that I can say that. This is the Maple Leaf Petroleums Limited, on the 13th of April, 1937. So I put it to you they are identical.

MR. JAMIESON: They operated a refinery on that date.

Q MR. FRAWLEY: On that date they operated a refinery?

MR. JAMIESON: Yes.

Q MR. FRAWLEY: The Maple Leaf Petroleums Limited operated a refinery at Coutts at tnat time?

MR. JAMIESON: They bought that refinery in 1931 and operated it until they closed it down, I would say in 1937.

MR. FRAWLEY: At the end of 1937 they stopped operating at all?

MR. JAMIESON: Yes.

Q MR. FRAWLEY: I simply put it to you, let us assume there was reason for the existence of this contract

in the Spring of 1937, but I suggest to you that this perpetuation has resulted in a very plain unfairness to other persons carrying on the same kind of business, namely, the jobbing of gasoline products. Is my suggestion not a fair one?

A Your statement, I suppose, has a certain amount of merit in it. Yet what you are inferring, perhaps not asking, is that just the minute a company closes up its refinery - and you know in the oil industry there is a great tendency to close up refineries for a time and then reopen them, very often not to dismantle them but just temporarily close down - your inference is that just the minute the refiner closes down we should immediately take away from him his right to market under a refinery brand, which he may have established over years and years.

Q Yes, I know, and I see what you mean. I do not say you should do it immediately. I might say you should not allow two years to go by. Here a contract was entered into on the 18th of April, 1937. Were the products discussed in the contract to be manufactured. Was there any restriction it was to be manufactured by the Maple Leaf?

A Absolutely not, or that rider would not be in there. There would not be any exception in the contract.

Q So probably that very operation was in existence at that time, purchasing from the Imperial Oil Company, because at that time it was a wholly owned Imperial subsidiary ?

A I have not made myself clear to you. These people were, through their refining, able to supply their customers in tank cars with, we will say, "Q" gasoline,. But these same customers wanted to buy Ethyl.

Q Yes?

A From the Maple Leaf.

Q Yes. The Maple Leaf then had to go and buy it?

A The Maple Leaf would have been in a very queer position to say to their customers "Yes, we can ship you "Q" gasoline by tank car, but we cannot ship you Ethyl gasoline." That is the reason for that exception.

Q They would have the right to ship "Q" gasoline because they made it and blended it?

A They have a refiner's licence.

Q Well, we get right back to the same thing. You see, at least what I am asking. Now, Mr. Kaley, do you tell me that there is some restriction in a jobber's licence as to the quantities he can sell. Take the Great West Distributors, a jobber of the B. A. Oil Company, and their contract is here. Here is their Ethyl licence. Do they have two licences, Ethyl and "Q"?

A Yes, Ethyl and "Q".

Q I do not know which this is, probably Ethyl. Yes, Ethyl. Can that company not sell me a carload of gasoline?

A That is correct.

Q They cannot sell me a carload of gasoline?

A They must sell in less than tank car quantities.

Q Why. What is the point in that restriction. They can sell me one gallon less than a tank car?

A If you were a jobber who bought in tank cars and re-sold in tank cars you would no longer be a jobber, you would be a broker.

Q We have not got those animals here under that label.

A We have, and you have in Eastern Canada the very same thing.

Q But not in Alberta. If Mr. George MacKenzie of the Great

H. W. Kaley.

West Distributors wanted to sell me, or if I wanted to buy rather, if I had a service station and wanted to buy in tank car quantities and I, perhaps, for a better price, was willing to put in underground storage tanks to take tank car, I could not buy it from Great West Distributors ?

A No.

Q Why?

(Page 11,846 follows.)

A Because that would put him in the position of being a broker and broadly speaking that provision is in there because we do not want brokers handling Ethyl gasoline; it is still another step removed from the refiner's supervision.

Q All right now,----

A You have not got them here anyway.

Q No. Now I would like to have your views to the Commission on the advisability or inadvisability of your corporation being subjected to any regulations by the Provincial or the Dominion Government; now let me start off by asking you a few questions, is your corporation, you are a corporation and it is incorporated in the State of Delaware?

A Yes.

Q Have you taken out any license or licenses or any registrations in either, in Ottawa Federally or in any of the Provinces of Canada?

A I am not very familiar with what you mean by licenses and registrations. We have our patents and trade mark.

Q No, have you registered as a foreign company, what we call a foreign company in the Province of Alberta?

A Well again do you mean qualified to do business, is that the word for it.

Q Yes, registered, I think the word is registered, I think the proper expression is registered as a foreign company?

MR. BLANCHARD: No, the answer is, it is not registered in here or in any of the Provinces.

WITNESS: I might say to you, Mr. Frawley, that we actually do no business whatsoever anywhere in the Dominion. Our contracts are executed in New York and

our organization in Canada is merely an organization of service to our customers. We collect samples and we hold meetings, educational meetings at the civic clubs and before groups of employees. We try to settle any complaints which may come up, which may be either imaginary or actual of our products and things of that sort.

Q We will not get into any discussion of how you are carrying on business, because that would mean actually going into the interpretation of the meaning of that word under the statutes, and you probably have been advised by your solicitors that you are not carrying on business within the meaning of those statutes, and you have not taken out licenses?

A That is correct.

Q And that obtains in all the Provinces of Canada?

A Yes.

Q The fact is you have an office in Toronto for Canada?

A Yes.

Q You have a Canadian Manager I dare say or who is called that, Mr. Fitzgerald?

A To direct the activities of our various men operating in Canada.

Q You have Mr. C. J. MacFarlane in this Province?

A Yes.

Q And you call him your resident engineer?

A We call him field representative.

Q Field representative?

A Yes.

Q Are there any other like Mr. MacFarlane in the Dominion of Canada?

Dr. Tolan

Dr. Yes.

Dr. Tolan

Dr. Yes.

Dr. Tolan

Dr. Yes.

A We have six men.

Q Altogether?

A Yes, that is not counting the manager.

Q And they do work in other parts of Canada similar to what Mr. MacFarlane does in this territory?

A Yes.

Q And what would be your view now with respect to whether this Commission should make any recommendations that you should be subject to regulation by any Governmental body in this Province with respect to the manner in which your licenses are issued and so on?

A Mr. Frawley, I would be in no position to make any statement on that.

Q You say you would be in no position?

A In no position to make any statement on that.

Q You would resist any such regulations; I am putting these things to you only to explore it, not because I have any ideas about it at all, you would, I take it, my friend Mr. Nolan does not agree with that apparently, he does not like all I have said, you would resist any suggestion that any Governmental body should have a voice in the granting of a license to a refiner in this Province?

A Are you not perhaps assuming what the final answer or finding of this Commission may be and we cannot assume that?

Q No, let me clear your mind about that, you can make and I can make any number of submissions to the Commission as to what we think should be their recommendations and they will give such, pay such regard, if any, to them, as they see fit but what would be your submission to the Commission as to whether or not there should be any Governmental

body set up or any existing body used, for the purpose of having some voice in whether you grant or refuse a license to a refiner in this Province?

A I would have no submission to make to the Commission other than I have made. I think the thing is going along pretty well right now.

Q As they are?

A Yes.

Q That is your submission then?

MAJOR LIPSETT: Is there a license that has to be issued to a refiner in the Province?

MR. FRAWLEY: By the Dominion Government.

MAJOR LIPSETT: Not by the Province?

MR. FRAWLEY: Not by the Province.

WITNESS: Mr. Frawley, I would like to make, before we get any further, a couple of corrections in figures which I made, the figures given yesterday, I went home and figured again last night and I find that my first error was carried to the second set of figures as you mentioned, and that is on page 11,719 of the testimony, I gave a figure on cost for gasoline containing 1.08 c.c's of lead per Imperial gallon, as being .03708 cents per gallon. That figure should be----

Q THE CHAIRMAN: That is freight and drums?

A Yes, that was the total of lead, freight and duty, and that figure should be .32292 and the----

Q THE CHAIRMAN: Will you say that again, the cost, freight and duty?

A The cost, freight and duty, I can give them to you separately, of 1.08 cubic centimeters of lead per Imperial

[illegible]

[illegible]

[illegible]

gallon----

Q THE CHAIRMAN: We will take it all over again, 1.08.

A 1.08 cubic centimeters of lead per Imperial gallon the actual cost of the lead is .2808; the cost of the freight is .02808; which amounts to just 10% of the cost and the duty is .01404, that is 5% of the cost, giving the total cost when the freight is paid by the licensee, of .32292; of course when the freight is paid by us we simply deduct that freight item and we have .2808 cost and .01404 duty, giving a total of .29484, that is the cost of lead and duty.

Q MAJOR LIPSETT: That figure of .32292, that is in substitution of the figure of .42642 which appears on page 11,720?

A That is right, Mr. Commissioner.

Now one other correction on page 11,718, I told you, Mr. Commissioner, that there were, it is my second answer, I told you that a small tank car contained 11,055,000 cubic centimeters.

Q MAJOR LIPSETT: Yes?

A That is true for fluid but not for lead; the actual figure for lead is 6,960,000 cubic centimeters of lead.

Q That is for the small tank car?

A Yes, the 3,000 gallons. I could give it to you for the large one but I do not believe you are interested in that.

Q MR. BLANCHARD: Mr. Kaley, is there anything, I am speaking now of the suggestion that there is a monopoly to the Texas Company under their licensing agreement with, is there anything in your agreement with the Texas

[illegible]

[illegible]

[illegible]

Company that precludes you from issuing similar agreement to other United States refiners?

A Nothing whatever, Mr. Blanchard, and the point which I have been trying to get across this morning is that there is nothing to prevent our issuing a license to another United States refiner to come into Canada if they have the same marketing set-up or a similar marketing set-up to that now had by the Texas Company of Canada; in other words, as I said before, the Texas Company perhaps may have an edge but it is not an edge which will not be given to anybody else who had the same supervisory organization as they have.

Q Yes, so that you cannot very well compare the Texas Company with another company that has not any organization at all in the Province of Alberta?

A You certainly cannot.

Q You cannot say there is a discrimination when the two cases are not comparable as between one refinery and another?

A To have discrimination I would think you would have to have two companies with the same facilities.

Q I think so too?

A In this case we have only one.

Q Now have you anything further to say, Mr. Kaley, with reference to your statement yesterday, you said that 75%, in your opinion, 75% of the cars could operate satisfactorily today on a 75 octane, I think you took 75 octane gasoline, do you want to elaborate on that at all?

A Well if I do it will be perhaps looking into the future a bit and only a matter of personal opinion, and that is that it has been our experience, and when I say ours, I mean the experience of the industry, that each year it has

gone up a little in anti-knock value and of course in other characteristics of the gasoline as well; each year the motor manufacturer has taken advantage of any increase in quality of the fuel, he has allowed, ever summer when he designs his car or at least sets his compression ratio for the coming model, to take full advantage of every bit of anti-knock value there is in the gasoline because he knows that by taking advantage of that he can give the consumer more power, performance, economy, speed. He can build a better automobile. Now when we talk about 75, as I said yesterday, right now 75 octane number gasoline will operate satisfacorily in, well we took an arbitrary figure of three-quarters of the cars; there is no doubt whatsoever in our minds that that figure is true today but it will be very untrue in a very short period of years; and the reason is this and we know that we have not reached the limit in compression ratio, which is oneway of taking advantage of it; super-charging, which is merely forcing the gasoline and the air mixture into the combustion chamber under pressure is really just about to start now, the people who are ready to release super-charged motors are really a little ahead of their time but they are going to come. If they do not come this Fall they will be here next fall or the next Fall but engines of that character, very much smaller, in our laboratory in Detroit, we have had on the dynamo-meter there, engines, engines the size of a small Buick which put out just as much power as the big engines you have in the Greyhound buses. It is merely a matter of working out these kinks and improving fuels until we reach that time. The aviation industry is a fine example of it

and the fact that power output and so on of motors depends, after you have worked out your meturallurgical and your ceramical problems, depends entirely on how good the fuel is, so if we say "Is 75 good enough", well 75 is good enough for the preponderance of cars today. The reason that gasolines of Ethyl quality of 80 or better are sold, are primarily as a cushion for the motor which is badly carboned, the motor which is running at high temperature because of a clogged water jacket or something of that sort, the motor that came off the production line without having a constant compression ratio of all its cylinders and the high priced automobile that was designed to take full advantage of Ethyl gasoline. Now the lower priced cars never have been and never will be designed so that they can only run on Ethyl, because those are cheap cars and the manufacturer says "Why should we design a cheap automobile for a consumer who may not want to pay the higher price", but those cheap cars, a certain percentage of them will knock just as badly as any others and the reason these refiners come in, they can go up to a full appreciation of the best non-premium gasoline available, is because they know if a car knocks there is always another grade up here that will take care of it and that is the octane, and that is the primary reason for Ethyl gasoline. Now I have read and heard quite a bit of testimony which was given here with regard to one grade of gasoline and as I said yesterday a 75 octane numbered gasoline would undoubtedly take care of 75% of your cars, but it would take care of them only this year. Now we have 75 octane numbered gasoline on sale in the States right now and that quality is being used but it is going up.

Q Is that premium or non-premium?

A It is non-premium.

Q But haven't you got a top or a maximum limitation of 73?

A As I said to you the other day, we are not..... It is going on in spite of our contracts you see. That exists all along the East Coast. We know it is going on and you cannot in my estimation set yourselves aside in the Province of Alberta from the rest of the Dominion or from the United States as far as that goes. When gasoline of that quality becomes generally available, whether it is available in Alberta or not, cars are going to be manufactured that will demand it and if you have one grade which is 75 and do not permit advances you are going to isolate yourselves as far as the quality of your gasoline is concerned. Now I say that particularly, Mr. Frawley, because from a dollars and cents standpoint, it really does not make a whole lot of difference to us. But I speak from our observations of what we can do with engines today with even better fuels than we have available.

Q THE CHAIRMAN: The suggestion has been thrown out that the General Motors Corporation is perhaps interested in engines that will not accommodate themselves to lower octane because of its interest in your company. Do you think there is anything in that?

A I assure you, Mr. Chairman, every company that builds motors is interested in the increasing anti-knock quality of gasoline. General Motors was not the first one to increase the compression of their engines. Chrysler were the ones who really started to take full advantage of the

high compression and the Chrysler Red Head, which came out 12 years ago, was really the pioneer in high compression. Today I think if we were to average the compression ratios of General Motors cars against Chrysler, for instance, we would find that Chrysler is putting out higher compression cars than General Motors. Their interest in our company I am sure can be no criterion in the design of their automobile, because everyone who builds motors is going to get just as much as they can out of them because competition will force them to.

Q Who has the control in your company, General Motors or Standard Oil of New Jersey?

A It is equal, Sir.

Q Just equal?

A Yes, Sir.

Q Well, I mean, as a practical thing is it exactly equal? If they differ, is there not control, or are there not a few odd shares now that.....?

A There are absolutely not. It is very closely held as a matter of fact, 50% to each. When you say control, I assume you mean stock control,

Q Yes?

A Because everything we do is pretty much left to the management.

Q Yes, I mean stock control?

A Yes, Sir.

Q If the Standard Oil of New Jersey and General Motors do not agree on policy, there is a deadlock?

A Well, I am not a director, so I do not know whether that condition has ever come about.

H. W. Kaley

Q I mean, not being a director, do you know as a matter of fact if that is the exact stock situation?

A That is my understanding.

Q MR. FRAWLEY: Is it widely held, the stock widely held, or just amongst a few people?

A Just the two companies, the General Motors and the Standard Oil of New Jersey.

Q Then the nominees on the Board of the Jersey Company and the nominees on the Board of General Motors are exactly equal, three apiece, or whatever it may be?

A Yes, they are exactly equal. I do not know that there are 3. I think there are 5 of each.

Q 5 of each?

A Yes, Sir.

Q THE CHAIRMAN: Has the chairman a casting vote, do you know?

A Sir?

Q Has the chairman of your Board a casting vote?

A I do not know. The chairman is our president.

Q Which organization does he belong to? Does he emanate from the Standard Oil or General Motors?

A He was originally with General Motors.

Q MR. FRAWLEY: Just one matter, it would be a shame to let you go back to New York and not have covered everything possible with you. If you can say in a word what is the central feature of the indictment that was preferred against your company by United States Government?

A As I understood it, the United States Government, or

H. W. Kaley

Judge Bondy in the southern district of New York, has given a legal opinion that we have not the right to insist on the existence of jobbers' licenses. In other words, as I understand it, it is purely a question of law as to whether we have the right to say to a refiner that he shall only sell to such jobbers as we issue licenses to.

Q In other words, these facts upon which that indictment was tried are, generally speaking, the same facts as exist in this province, the same set-up?

A Well, the insistence on jobber licenses.

Q Yes? The very thing you said a moment ago you told Imperial Oil Company.....?

A Yes. We issue licenses here, and as I say Judge Bondy has rendered a decision down there - and our licenses are the same incidentally - that we have not the right to do that .

Q Is that conviction under appeal?

A No.

MR. BLANCHARD: It is not a conviction. It is an injunction?

A It is not a decree yet. It is an opinion. It is still awaiting, as I understand, a conclusion of law. I have forgotten how it comes about.

Q THE CHAIRMAN: I was asking one other Witness the other day, who was taking the lead. Do you get out a gasoline that the motor car companies desire to meet their requirements, or do they have to build their engines in accordance with the fuel that they have?

H. W. Kaley

Where do you coordinate, if at all? Other than what may be done in your own company with a very great oil company and an automobile producing company. Outside of that, is there any attempt to coordinate and correlate so that cars are made to suit the gasoline that can be economically bought, or are you aiming at more power and more speed all the time, regardless?

A Your second statement, Mr. Chairman, is the correct one, in that oil companies, I will say the oil industry, are increasing the quality of their products and the automobile companies follow and take advantage of everything that is generally available. It may be said I think that the automobile companies take such advantage of the quality of non-premium fuels that knocking complaints usually exist. In other words, they take it all. Both industries are represented in the so-called Co-Operative Fuel Research Committee, both the American Petroleum Institute and the Society of Automotive Engineers.

Q Tell me more about that Committee, will you please, Mr. Kaley?

A Well, I am not too familiar with it, Mr. Chairman, except that I know it is composed of representatives from the Society of Automotive Engineers and representatives from the American Petroleum Institute. Now those gentlemen discuss their mutual problems such as, well, the establishment of an octane number or rather the establishment of the trend is probably a very minor feature of their activities. They discuss the need for various lubricants, such as the lubricants which are necessary with various kinds of bearings,

copper, lead and cadmium-silver. Lubricating oils have a very definite effect on those. The new so-called fluid fly-wheel introduced by Chrysler, takes a very special lubricant, as did the free wheeling some years ago. All of these problems having to do with fuels and lubricants for the automobile are discussed jointly by those committees in an endeavor to give the consumer both the best mechanical operation of the car that they can give the the best operation through the petroleum products which he uses.

Q How often do they meet, do you know?

A They have two yearly meetings. Their committees meet in between. I haven't any idea how often. And then of course they have sub-committees on various subjects who meet more frequently.

Q MR. FRAWLEY: Just one more thing. I am told and only learned today that there is being marketed in Calgary a non-leaded gasoline of about 70 to 72 octane. If it can be arranged that that company could give us a sample, or give your corporation a sample of that gasoline, would you be good enough to have it tested and return the result of the test to Mr. MacFarlane, so that it may be placed before the Commission? I mention it to you because I know you have very fine testing facilities.

A My understanding is that this company does not use any lead and is not a customer of ours.

Q That is right.

A In that case we would be very glad to do that for you,

Q Thank you very much.

THE CHAIRMAN: Any questions?

Q MR. MELTABARGER: I should like to ask Mr. Kaley as to his statement that 75% of the automobiles to-day could use 75 octane gasoline. Do you include the present Ford or the last three years' model Ford car in that 75%?

A I do not think, Mr. Meltabarger, that I can necessarily qualify that. That was a general statement. I would not qualify it by car or by series of cars, of the same model.

Q Do you know that it is a fact in Canada, I do not know about it in the States, that the Ford car manufactured in Canada even knocks with 80 octane?

A I have heard so.

Q And Ford is 40%, about 40% of the total manufactured cars in Canada, is it not?

A Well, of course, I am speaking, when I made that figure 75%, that 75%, it is very much of a general statement and I am speaking there, Mr. Meltabarger, of the United States and Canada as a whole. Now, if your conditions are different here and your compression ratios are higher or if your cars knock more because you have a lot of high mountains over here, it is just an exception, perhaps. But I say, and I made it as a general statement, for the United States and Canada, and is only a personal opinion.

H. W. Kaley.

Q MR. FRAWLEY: Mr. Kaley, so that you won't get too far carried away with 82 octane gasoline that Mr. Meltabarger sells, Mr. Cottle says that his new Mercury, he cannot make it ping with 70 octane gasoline, after he had a little adjustment?

A Yes, engineers can fix that up, I am sure.

THE CHAIRMAN: Now, Mr. Kaley, your evidence has been very interesting and instructive.

A Thank you, Sir.

(At this stage the Hearing was adjourned until 9:00 A. M. 24th July, 1939.)

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